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PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

NEWS ANALYSIS

POLITICS THIS WEEK

BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS

RESEARCH TOOLS

CLASSIFIED ADS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

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Print Edition April 7th 2007

On the cover
Globalisation's offspring: how the new multinationals are remaking the old ones: leader

Previous print editions
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The world this week
Politics this week
Business this week
KAL's cartoon

Leaders
Multinationals
Globalisation's offspring

Iran and the West
All at sea over Iran

Trade
Pyrrhic victory

Ethanol
Castro was right

Kashmir
Time to go

Letters
On Amnesty International and human rights, Iraq, tax breaks

Special Report
Iran and the West
Sailing into troubled waters

Britain's military power
From the Falklands to the Gulf

United States
Trade policy
The trade two-step

Global warming
Air pressure

Campaign funding
The money primary

Texas politics
Brooking no DeLay

Kentucky
Under starter's orders

Recovering from tornadoes
Self-sufficient Arkansas

Subprime lending
Live now, pay later

Lexington
Looking for Mr Right

The Americas
Politics in Mexico
An early harvest for Calderón

Brazil
Lula opts for a quiet life

Canada's seal hunt
On thin ice

Argentina and the Falklands
Their island story

Asia
Japan and China
Peace breaking out

Cambodia's local elections
Hun Sen wins again

Kashmir
Troops out?

China
I'd rather be a hammer

Bangladesh
Digging in

Business
Transatlantic aviation
Chocks away

Telecom Italia
Plot twist

Online music
A change of tune

Social networking
Joined-up thinking

European energy
How not to block a takeover

Counterfeit cars in China
The sincerest form of flattery

Marketing
Building buzz

Chocolate
Thinking out of the box

Face value
Green revolutionary

Special Report
IBM and globalisation
Hungry tiger, dancing elephant

Finance & Economics
Political-risk insurance
Of coups and coverage

Buttonwood
Soros on the cheap

Payment cards
Cashiered

United Commercial Bank
Diaspora finance

Brazil's stock exchange
A second look

Economics focus
Smaller shares, bigger slices

Science & Technology
Computer vision
Easy on the eyes

Anaesthesia
You won't feel a thing

Bacteria and depression
Bad is good

Bacteria and antibiotics
Weakness is strength

Correction: Antarctic science

Books & Arts
France's next president
The fire in their veins

English history
An interim time of great confusion

Russia
A slice of death

Memoirs of adoption
The bittersweet taste of discovery

Surgeons at work
Are they human?

Amazon worldwide bestsellers
The Child is father of the Man

Thailand
Southern discomfort

Pakistan
Teacher, don't leave them kids alone

Middle East & Africa

Somalia
A failed state that threatens the region

Zimbabwe
The hogwash of quiet diplomacy

Syria
Has he got away with it?

Iraq and the Kurds
The other Jerusalem

Libya
Still bizarre, in a bad way

Advertisement

Europe

Russia's Muslims
A benign growth

Ukraine's messy politics
Tragedy and farce

Spain
Media wars

Poland and its past
Heavy vetting

France's presidential race
The banlieue effect

Greece's government
School for scandal

Greek myths revisited
Testing Homer

Charlemagne
Transatlantic tensions

Britain

Crowded airports
Landing flap

Fertility treatment
Quality, not quantity

Victorian public baths
Reincarnation

Secondary markets
Arbitrage against the machine

Britain's Somalis
Settling in

Qat
Something to chew over

Bagehot
Time for a fight

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International

Foreign aid
The non-aligned movement

Marine research
Deep waters

Human rights
Bad counsel

Climate change
All washed up

Advertisement

Obituary

Paul Lauterbur

Economic and Financial Indicators

Overview

The Economist poll of forecasters, April averages

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Politics this week

Apr 4th 2007
From The Economist print edition

Tortuous diplomacy continued in an effort to free 15 British sailors and marines captured recently by **Iran**, which said they had trespassed into Iranian waters at the top of the Persian Gulf. Britain, which denied the charge, said it has proposed direct talks with Iran. See article

Following a threat from Kurdish members of Iraq's parliament to leave the unity government, a plan was agreed upon to offer compensation and land in Iraq's Arab south for Arabs willing to leave the disputed city of Kirkuk, which Kurds want to include in their region. See article

Iraq's most influential cleric, Grand Ayatollah **Ali al-Sistani**, who has been notably quieter in the past year or so, seemed to reject the unity government's plan to allow members of Saddam Hussein's Baath Party back into public service. Sunni Arabs say this may hamper Shia-Sunni reconciliation.

Nancy Pelosi, the Democratic speaker of America's House of Representatives, defied President George Bush by making a controversial visit to **Syria**, a country the Bush administration has sought to ostracise. See article

Israel's prime minister, Ehud Olmert, suggested holding talks with Saudi Arabia on the Arab League's plan, relaunched last week, for normalising relations with Israel. The Arab League's secretary-general, Amr Moussa, dismissed the comments as a call for a “free-of-charge normalisation”, while a Saudi official said that Israel would have to accept the plan's principles before talks could be held.

Southern African leaders, meeting in Tanzania to discuss conditions in Zimbabwe, asked South Africa's President Thabo Mbeki to mediate between **Zimbabwe's** opposition and its president, Robert Mugabe, whom they refused to criticise. In Zimbabwe itself, the ruling party said Mr Mugabe would be its candidate again in next year's presidential election. See article

The United Nations said that about 47,000 people had fled Mogadishu in the past two weeks after fighting flared in the **Somali** capital, killing about 400 people, most of them civilians. See article

Built to last?

Former Maoist insurgents in **Nepal** joined an interim government in coalition with seven mainstream parties, an important landmark in the peace process. The Maoists took five out of 21 cabinet posts, including the departments of information and local development.

The **South Asian Association for Regional Co-operation** held a summit in Delhi, marked by the usual professions of seriousness about co-operation and the usual lack of concrete measures to realise it.

Six Islamist militants were executed in **Bangladesh**. The militants were convicted of a series of bombings in 2005 that gave rise to fears the country might become a hub for international terrorism. See article

Local-commune elections in **Cambodia** resulted in another landslide win for the ruling Cambodian People's Party of Hun Sen, the prime minister. The opposition made accusations of fraud. See article

At least 28 people died when a tsunami hit the **Solomon Islands**. Hundreds of homes and much infrastructure were destroyed. Many survivors moved to camp on inland hills, in fear of aftershocks, and were reported to be in desperate need of water, food and tents.

AP

Taking time to heal

Argentina's government marked the 25th anniversary of the start of the **Falklands War** with an announcement that it was pulling out of an agreement with Britain regarding oil exploration in the South Atlantic. See article

More chaos afflicted **Brazil's** airports. After a five-hour strike by air-traffic controllers, the government agreed to their demands for higher pay and for some to be transferred from the air force to a civilian agency. Brazil has been dogged by air-traffic control problems since September.

In his first political intervention since undergoing surgery last year, **Cuba's** Communist president, Fidel Castro, published a newspaper article claiming that American plans to boost ethanol use would lead to food shortages. See article

Coming up with the goods

America and South Korea agreed on a plan to form a **free-trade area**. It must be ratified by Congress and South Korea's parliament and faces obstacles in both places.

Environmentalists claimed a victory when America's Supreme Court, in its first “global warming” case, ruled that the Environmental Protection Agency did have the power to regulate **carbon dioxide** emissions, and criticised it for not having done so. The decision puts more pressure on the Bush administration to take action on reducing greenhouse gases. See article

Presidential contenders released details of the **money** they raised during the first three months of this year. Hillary Clinton claimed to have the most, $26m. Republican candidate Mitt Romney claimed $21m. Barack Obama did not disclose a sum, but it was rumoured to be in excess of $20m. See article

A report forecast that this year American farmers would plant their largest amount of **corn** since 1944, driven by the demand for ethanol as an alternative fuel.

David Hicks was sentenced to seven years in prison by a military tribunal at **Guantánamo Bay**. But Mr Hicks, who made a plea bargain and admitted helping al-Qaeda, will serve only nine months and in his native Australia.

Vying to be the ultimate Viktor

In an escalating political confrontation, **Ukraine's** president, Viktor Yushchenko, dissolved parliament and called a new election on May 27th. But his rival (and prime minister), Viktor Yanukovich, refused to accept the dissolution. As is now customary, flag-waving protesters from both sides took to the streets. See article

As expected, **Romania's** government fell apart and the prime minister, Calin Popescu Tariceanu, formed a new minority administration. He also dropped the well-known justice minister, Monica Macovei, who is a protégée of the president, Traian Basescu.

France broke the world rail-speed record when a high-speed train travelling on the new line from Paris to Strasbourg touched a top speed of nearly 575kph (357mph).

AFP

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Business this week

Apr 4th 2007
From The Economist print edition

Texas Pacific Group, a private-equity firm, approached Spain's **Iberia** airline with a *euro*3.4 billion ($4.5 billion) bid, the first attempt at a cross-border takeover in the airline industry since the agreement by European ministers to an “open skies” treaty with America. There was speculation that several other carriers were circling with rival bids.

Aeroflot, Russia's state-owned airline, emerged as a surprise bidder for **Alitalia**. Italy's government is selling its controlling stake in the national carrier and has whittled the list of buyers down to three consortia. All include some involvement from Italian firms, but Aeroflot's has the least. Its partner, UniCredit bank, has a 5% stake in the bid.

Bottomless pockets

Kohlberg Kravis Roberts said it would take over **First Data**, which processes credit-card and other payments, in a $29 billion buy-out. The deal is unusual in that, given its size, it was made by a single private-equity firm (and not a “club” of firms) with the backing of several banks that are committing equity as well as debt.

In what would be Australia's biggest takeover, **Wesfarmers**, a conglomerate based in Perth, revealed it owned more than 11% of **Coles**, a retailer, and was “pursuing discussions”. Wesfarmers is making its A$19.7 billion ($16 billion) offer in conjunction with several private-equity investors, including Macquarie Bank. A rival private-equity consortium, led by KKR, is also negotiating with Coles, having had its initial bid rejected.

Sam Zell, a property mogul based in Chicago, won the auction to buy **Tribune**, a media conglomerate which includes the *Los Angeles Times* and *Chicago Tribune* in its stable. Mr Zell fended off a rival bid from two Californian billionaires with his deal, valued at $8.2 billion. In order to pay down its debt, Tribune will sell some assets, including the Chicago Cubs baseball team.

The end for Endesa

The 18-month saga to take control of **Endesa**, Spain's biggest power company, seemed to reach a conclusion. **E.ON**, a German utility, agreed to drop its *euro*42 billion ($56 billion) bid in return for some of Endesa's assets. It had faced both competition from an Italian-Spanish alliance that holds a 46% stake in the company and strong opposition from the Spanish government (which is being sued by the European Commission for hindering E.ON). Endesa will now be split among E.ON, **Enel**, an Italian rival, and **Acciona**, a Spanish construction firm. See article

As the battle for Endesa drew to a close, another politically contentious takeover attempt for a European company looked set to begin. Italy's telecommunications minister said he was “very concerned” at an offer from **AT&T** and **América Móvil**, a Mexican mobile operator, for most of the controlling stake in **Telecom Italia** held by **Pirelli**, a conglomerate and compatriot. See article

Auctions continued of the former assets of **Yukos**, a private Russian oil firm that was forced into bankruptcy by government tax claims. **Eni** and **Enel**, two Italian energy firms, became the first foreign firms recently to win control of Russian oil and gas fields. However, the pair have given **Gazprom**, the state gas company, the option to buy a controlling stake in the venture.

Dubai Aerospace agreed to buy two **aircraft-maintenance** companies in North America, one in Canada, the other in Arizona, from Carlyle Group for $1.8 billion. Charles Schumer, an American senator who opposed the takeover of operations in American ports by a company from Dubai last year, said this acquisition did not raise the same level of security concerns.

Apple announced that **EMI** had become the first big record label to unlock the digital-rights technology on its music sold through Apple's iTunes online music store in an effort to boost sales. The news came shortly before the European Commission said it was initiating an antitrust investigation into whether agreements made between **record companies** and Apple restricted online music-sales through iTunes. See article

Google made its biggest foray into television advertising by announcing a partnership with **EchoStar**. The deal will allow the internet company, which has been experimenting with "offline" advertising over the past few months, to replicate its online system for buying, selling and measuring the impact of ads on EchoStar's 125 satellite channels in the United States.

Planning a short break?

Mercer, a consultancy, released its annual **quality of life index** of cities around the world. The survey evaluated 215 cities on 39 factors, such as transport, education and political stability, and ranked them accordingly. European cities accounted for half of the top 50 places in the list and North American cities for 13.

Quality of life

Selected cities

City	Rank	City	Rank
Zurich	1	New York	48
Munich	8	Hong Kong	70
Singapore	34	Beijing	116
Tokyo	35	Delhi	148
London	39	Moscow	171

Source: Mercer Human Resource Consulting

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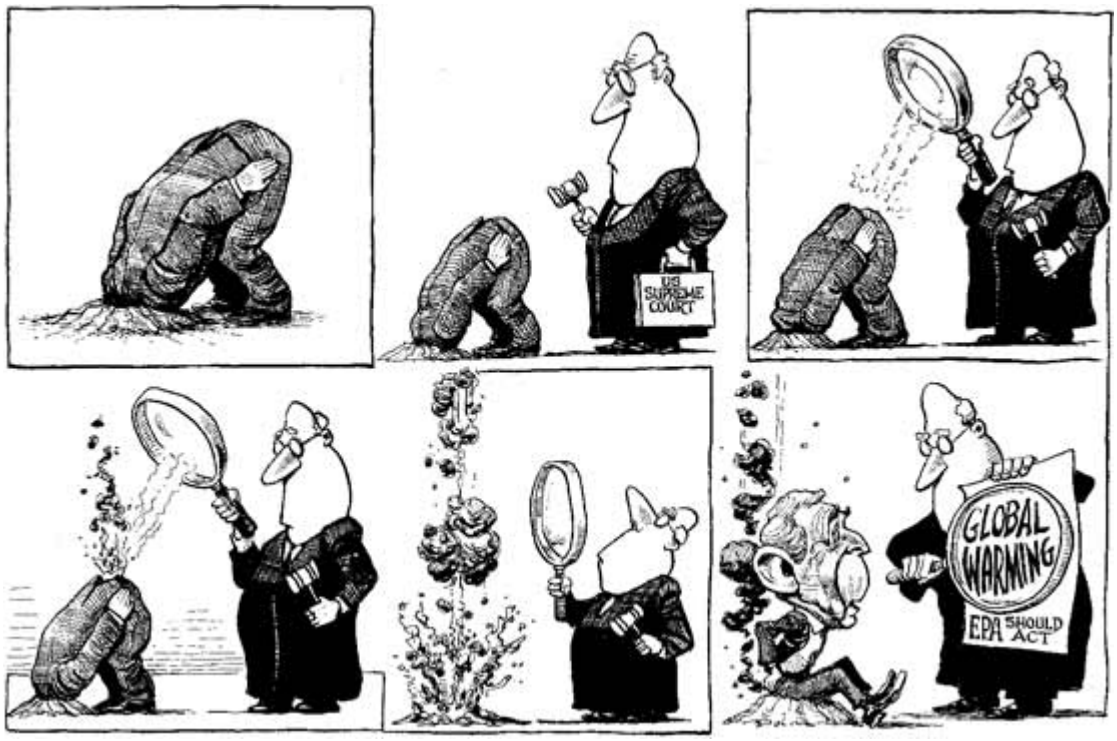
KAL's cartoon

Apr 4th 2007
From The Economist print edition

Kevin Kallaugher



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Multinationals

Globalisation's offspring

Apr 4th 2007
From The Economist print edition

How the new multinationals are remaking the old

FOR as long as multinational companies have existed—and some historians trace them back to banking under the Knights Templar in 1135—they have been derided by their critics as rapacious rich-world beasts. If there was ever any truth to that accusation, it is fast disappearing. While globalisation has opened new markets to rich-world companies, it has also given birth to a pack of fast-moving, sharp-toothed new multinationals that is emerging from the poor world.

Indian and Chinese firms are now starting to give their rich-world rivals a run for their money. So far this year, Indian firms, led by Hindalco and Tata Steel, have bought some 34 foreign companies for a combined $10.7 billion. Indian IT-services companies such as Infosys, Tata Consultancy Services and Wipro are putting the fear of God into the old guard, including Accenture and even mighty IBM (see article). Big Blue sold its personal-computer business to a Chinese multinational, Lenovo, which is now starting to get its act together. PetroChina has become a force in Africa, including, controversially, Sudan. Brazilian and Russian multinationals are also starting to make their mark. The Russians have outdone the Indians this year, splashing $11.4 billion abroad, and are now in the running to buy Alitalia, Italy's state airline (see article).

These are very early days, of course. India's Ranbaxy is still minute compared with a branded-drugs maker like Pfizer; China's Haier, a maker of white goods, is a minnow next to Whirlpool's whale. But the new multinationals are bent on the course taken by their counterparts in Japan in the 1980s and South Korea in the 1990s. Just as Toyota and Samsung eventually obliged western multinationals to rethink how to make cars and consumer electronics, so today's young thrusters threaten the veterans wherever they are complacent.

The newcomers have some big advantages over the old firms. They are unencumbered by the accumulated legacies of their rivals. Infosys rightly sees itself as more agile than IBM, because when it makes a decision it does not have to weigh the opinions of thousands of highly paid careerists in Armonk, New York. That, in turn, can make a difference in the scramble for talent. Western multinationals often find that the best local people leave for a local rival as soon as they have been trained, because the prospects of rising to the top can seem better at the local firm.

First, count your blessings

But the newcomers' advantages are not overwhelming. Take the difference in company ethics, for instance, which worries plenty of rich-world managers. They fear that they will engage in a race to the

bottom with rivals unencumbered by the fine feelings of shareholders and domestic customers, and so are bound to lose. Yet the evidence is that companies harmonise up, not down. In developing countries (never mind what the NGOs say) multinationals tend to spread better working practices and environmental conditions; but when emerging-country multinationals operate in rich countries they tend to adopt local mores. So as those companies globalise, the differences are likely to narrow.

Nor is cost as big an advantage to emerging-country multinationals as it might seem. They compete against the old guard on value for money, which depends on both price and quality. A firm like Tata Steel, from low-cost India, would never have bought expensive, Anglo-Dutch Corus were it not for its expertise in making fancy steel.

This points to an enduring source of advantage for the wealthy companies under attack. A world that is not governed by cost alone suits them, because they already possess a formidable array of skills, such as managing relations with customers, polishing brands, building up know-how and fostering innovation.

The world is bumpy

The question is how to make these count. Sam Palmisano, IBM's boss, foresees nothing less than the redesign of the multinational company. In his scheme, multinationals began when 19th-century firms set up sales offices abroad for goods shipped from factories at home. Firms later created smaller “Mini Me” versions of the parent company across the world. Now Mr Palmisano wants to piece together worldwide operations, putting different activities wherever they are done best, paying no heed to arbitrary geographical boundaries. That is why, for example, IBM now has over 50,000 employees in India and ambitious plans for further expansion there. Even as India has become the company's second-biggest operation outside America, it has moved the head of procurement from New York to Shenzen in China.

As Mr Palmisano readily concedes, this will be the work of at least a generation. Furthermore, rich-country multinationals may struggle to shed nationalistic cultures. IBM is even now trying to wash the starch out of its white-shirted management style. But today, General Electric alone seems able to train enough of its recruits to think as GE people first and Indians, Chinese or Americans second. Lenovo's decision to appoint an American, William Amelio, as its Singapore-based chief executive, under a Chinese chairman, is a hint that some newcomers already understand the way things are going.

IBM's approach is possible only because globalisation is flourishing. Many of the barriers that stopped cross-border commerce have fallen. And yet, Mr Palmisano's idea also depends on the fact that the terrain remains decidedly bumpy. Increasingly, success for a multinational will depend on correctly spotting which places best suit which of the firm's activities. Make the wrong bets and the world's bumps will work against you. And now that judgment, rather than tariff barriers, determines location, picking the right place to invest becomes both harder and more important.

Nobody said that coping with a new brood of competitors was going to be easy. Some of today's established multinational companies will not be up to the task. But others will emerge from the encounter stronger than ever. And consumers, wherever they are, will gain from the contest.

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Iran and the West

All at sea over Iran

Apr 4th 2007
From The Economist print edition

The meaning of Iran's latest muscle-flexing in the Persian Gulf

Reuters

Get article background

IN BRITAIN, which says its servicemen were grabbed while going about their lawful business, there has been much harrumphing about the humiliation of a once great power. But, in truth, the decline of British sea power is a very old story. What is new in Iran's seizure a fortnight ago of 15 British sailors and marines is the message it sends about a new balance of power in the Middle East—and, connected to this, about the decline, or at least the perceived decline, of American global power.

Iran's president Mahmoud Ahmadinejad has decided to cut the affair short, let the captives go and declare victory. But its original motives in this affair are hard to divine. It may have been a mistake, a deliberate provocation or an attempt to counter the pressure Iran feels from United Nations sanctions. Whatever the motive, one lesson is plain: Iran is hard to intimidate (see article). Tweaking Britain is, admittedly, a safer bet than kidnapping Americans. Nonetheless, British forces operate inside Iraq and its waters in triple trust: as best friends of the United States, as supporters of Iraq's elected government and under a mandate from the United Nations. Iran's willingness to defy not only Britain but also the superpower, the government in Baghdad and the Security Council reflects its conviction that it is the coming power in the Middle East.

Iran's inevitable rise

And so it may be. Having been hemmed in by the Taliban in Afghanistan and Saddam Hussein in Iraq, Iran has gaily watched George Bush remove both enemies in quick succession. Iran knows that its Shia co-religionists in Baghdad care more about good relations with Iran than with Britain, whose small force in southern Iraq is anyway on its way home. As for defying the United Nations, the Security Council has ordered the Iranians twice recently to stop enriching uranium. Despite the imposition of sanctions, the centrifuges spin on.

As Iran's standing rises, America's falls. No other country has America's power to smash an enemy, and none is close to acquiring it. But victories in Afghanistan and Iraq have not enabled the superpower to impose peace, let alone a Pax Americana, either in Iraq or the wider Middle East. America has not

frightened Syria away from its alliance with Iran. Mr Bush has not achieved his stated aims of advancing the cause of Arab democracy or bringing peace to Palestine. Indeed, Israel itself disappointed America and boosted Iran by failing in last summer's war to demolish Hizbullah, Iran's Lebanese confederate.

A sure sign of changing times is the behaviour of Saudi Arabia. The Gulf Arabs have a long history of paying allies to ward off their Persian neighbour. Until the 1960s Britain was their protector; in the 1980s it was Saddam. After his invasion of Kuwait in 1990 the Saudis enlisted America to push him out.

And yet even the Saudis now question the wisdom of relying on the superpower. It is not only that America is unpopular on the Arab street. Its dependability as an ally is in question as American voters turn against foreign adventures and the Democrats challenge the White House's control of foreign policy (Nancy Pelosi, the House speaker, this week defied Mr Bush by meeting Syria's President Bashar Assad in Damascus). In Palestine and Lebanon, the Saudis have embarked on some freelance peacemaking of their own while distancing themselves from America. Opening the Arab League summit last week, King Abdullah astonished friends in Washington by calling America's presence in Iraq “an illegitimate foreign occupation”.

Four years after the invasion, the Iraq debacle continues to bedevil American diplomacy everywhere. It is one reason for the resistance in parts of Europe to America's plans for missile defence. It also explains the tepid support Britain received when it asked the Security Council to “deplore” the detention of its sailors and had to make do with “grave concern” instead. The council's other permanent members—Russia, France and China—still resent America and Britain for ignoring their wishes in 2003, and are not desperate to help the Anglo-Saxons out of their trouble now. Though the Security Council has imposed sanctions on Iran for its nuclear defiance, Russia and China have limited their scope. And though nobody would welcome an Iranian atomic bomb, not all countries agree that Iran's nuclear programme is the clear and present danger the Americans say it is. Didn't they say just that about Iraq?

And what to do about it

If the world is in two minds about Iran, so is America itself. That a militant, oil-rich Muslim theocracy of 70m people, with a Holocaust-denying president who yearns for Israel's disappearance and calls America and Britain the greater and lesser Satans, poses some sort of problem is not in dispute. Opinion divides on what to do about it.

One school says that since Iran will inevitably become a dominant regional power, an America bogged down in Iraq should seek an accommodation with it, just as Richard Nixon and Henry Kissinger reached out to China to cover America's retreat from Vietnam. The other cautions that an American overture would be read as weakness. Underlying this debate is genuine puzzlement about Iran's factional politics and true intentions. Is this a regime of realists that would be willing to forgo the bomb and moderate its stance on Palestine in return for American recognition of its legitimacy and regional importance? Or is anti-Westernism inscribed indelibly in its revolutionary DNA? The saga of the British sailors offers few clues, save that at least one of Iran's powerful factions is unafraid of defying the West. But even here, Iranian bombast and bad behaviour have been combined with a shrewd calculation of the point at which it is in danger of alienating world opinion.

Now that the British are being released, America should indeed be wary of actions that make its own posture in the region look even weaker than it is. It need not act the supplicant. With the rest of the world, it should continue to insist that Iran must stop enriching uranium. But why not explore the possibility of a bargain, provided Iran can prove its claim that it does not seek nuclear weapons and signs on for compromise in Palestine? That would not just test Iran's intentions. It might even help to swing the argument in Tehran the right way.

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Trade

Pyrrhic victory

Apr 4th 2007
From The Economist print edition

America's trade deal with South Korea may be the last gasp for its free-trade project

Corbis

Get article background

THE negotiators can pat themselves on the back as many times as they like, but that doesn't make bilateral trade deals good economic policy. This week's announcement that America and South Korea are to create a free-trade area that will link the world's largest and 12th-largest economies marks the most ambitious trade agreement America has concluded since NAFTA, more than a decade ago. It is being spun by both governments as an historic achievement, and it certainly has its good points. Almost all tariffs are being scrapped within three years of the agreement coming into force, with others to go after that—though as ever the most contentious areas, such as rice, have been left out altogether, or will be handled much more slowly, as with beef and trucks. But the hype ignores the serious side-effects of agreements of this type.

The first malign effect is that this deal is inspired by, and will in turn help to inspire, an ever-thickening alphabet soup of bilateral and narrowly regional trade regimes. Such deals not only shut out less favoured countries from global commerce, but also undermine each other by creating a riot of incompatible regulation. This is particularly true in booming Asia. The perverse result is to hamper, not expedite, globalisation, which relies on the free flow of goods and services between many countries, not just along bilateral channels.

The second problem is that all this bilateral effort saps some of the impetus for genuine multilateral trade negotiation (though there is a counter-argument: if the Doha round were not sinking into the sand, countries like Peru and South Korea would be less keen on bilateral agreements). Either way, stagnation in the multilateral arena is the flip-side of deals like the US-South Korean one.

But, no matter what one thinks of the merits of the Korean deal, the cause of free trade in America is now in serious trouble. Approval of the agreement is by no means certain in a Democratic-controlled Congress (see article) that is sceptical of all trade deals—and some of whose members would very much like to rewrite NAFTA. The deal may also have a hard time winning approval in the South Korean parliament.

Slow track

The urgency with which the deal was struck, in frantic negotiations last weekend, was a symptom of this.

The deal had to be notified to Congress by April 1st if it were to have any chance of passing, since that was the latest date for deals to be eligible for “fast-track” procedures, which limit debate and impose a straight yes or no vote on a trade agreement. Fast-track expires at the end of June, and the urgency comes because no one expects that Congress will renew it—and without it, trade deals are doomed. That, presumably, will now be the fate of the US-Malaysia free-trade deal, which could not be completed in time.

The expiry of fast-track, of course, also has further dire implications for the Doha round, as if its chances were not bleak enough already. Congress is plainly in a protectionist mood, as the impasse over fast-track shows. The president has tried to woo it, with promises of increased “trade-adjustment assistance”, a package of benefits aimed at helping retrain workers who lose their jobs as a result of increased foreign competition, and offering to toughen the labour standards required of trade partners. This week, he also got tough on trade with China. So far, though, no luck.

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Ethanol

Castro was right

Apr 4th 2007
From The Economist print edition

As a green fuel, ethanol is a good idea, but the sort that America produces is bad

FLPA

IT IS not often that this newspaper finds itself in agreement with Fidel Castro, Cuba's tottering Communist dictator. But when he roused himself from his sickbed last week to write an article criticising George Bush's unhealthy enthusiasm for ethanol, he had a point. Along with other critics of America's ethanol drive, Mr Castro warned against the “sinister idea of converting food into fuel”. America's use of corn (maize) to make ethanol biofuel, which can then be blended with petrol to reduce the country's dependence on foreign oil, has already driven up the price of corn. As more land is used to grow corn rather than other food crops, such as soy, their prices also rise. And since corn is used as animal feed, the price of meat goes up, too. The food supply, in other words, is being diverted to feed America's hungry cars.

Ethanol is not much used in Europe, but it is a fuel additive in America, and a growing number of cars can use either gasoline or ethanol. It accounted for only around 3.5% of American fuel consumption last year, but production is growing by 25% a year. That's because the government both subsidises domestic production and penalises imports. As a result, refineries are popping up like mushrooms all over the midwest, which now sees itself as the Texas of green fuel.

Why is the government so generous? Because ethanol is just about the only alternative-energy initiative that has broad political support. Farmers love it because it provides a new source of subsidy. Hawks love it because it offers the possibility that America may wean itself off Middle Eastern oil. The automotive industry loves it, because it reckons that switching to a green fuel will take the global-warming heat off cars. The oil industry loves it because the use of ethanol as a fuel additive means it is business as usual, at least for the time being. Politicians love it because by subsidising it they can please all those constituencies. Taxpayers seem not to have noticed that they are footing the bill.

Bad, good and best

But corn-based ethanol, the sort produced in America, is neither cheap nor green. It requires almost as much energy to produce (more, say some studies) as it releases when it is burned. And the subsidies on it cost taxpayers, according to the International Institute for Sustainable Development, somewhere between $5.5 billion and $7.3 billion a year.

Ethanol made from sugar cane, by contrast, is good. It produces far more energy than is needed to grow it, and Brazil—the main producer of sugar ethanol—has plenty of land available on which to grow sugar without necessarily reducing food production or encroaching on rainforests. Other developing countries with tropical climates, such as India, the Philippines and even Cuba, could prosper by producing sugar

ethanol and selling it to rich Americans to fuel their cars.

There is a brighter prospect still out there: cellulosic ethanol. It is made from feedstocks rich in cellulose, such as wood, various grasses and shrubs, and agricultural wastes. Turning it into ethanol requires expensive enzymes, but much research is under way to make the process cheaper. Cellulosic ethanol would be even more energy-efficient to produce than sugar ethanol and would not impinge at all upon food production. Eventually, it might even allow countries with lots of trees and relatively few people, such as Sweden and New Zealand, to grow their own fuel rather than import oil.

That is still some way off. In the meantime, America should bin its silly policy. If it stopped taxing good ethanol and subsidising bad ethanol, the former would flourish, the latter would wither, the world would be greener and the American taxpayer would be richer.

Ethanol is not going to solve the world's energy problems on its own. But its proponents do not claim that it would. Ethanol is just one of a portfolio of new energy technologies that will be needed over the coming years. Good ethanol, that is—not the bad stuff America is so keen on.

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Kashmir

Time to go

Apr 4th 2007
From The Economist print edition

India's huge military presence in Kashmir does far more harm than good

AP

LOOK at the houseboats lolling on the placid waters of the Dal Lake in Srinagar, summer capital of Indian-administered Kashmir, and it is hard to remember that this is still a war-zone of sorts. An insurgency against Indian rule has dragged on for 17 years and still claims an average of three lives each day. At intervals around the lake stand sentries bearing rifles, a handful of the estimated 600,000 soldiers and paramilitary police India has stationed in its state of Jammu & Kashmir. A debate has been raging in both Kashmir and Delhi (see article) about whether such a massive military presence is a good idea. It is not, and it is encouraging that Manmohan Singh, India's prime minister, has not ruled out "demilitarisation" of the state. But it is depressing that, instead of running with this ball, he has kicked it into the long grass: consideration by committees of experts.

There are at least three good reasons for cutting troop levels in Kashmir. First, present numbers are not needed. It is too late for the army to offer protection to the 300,000 Hindus displaced in the Muslim-majority state. And a ceasefire along the "line of control" that, in the absence of an agreed international border, separates Indian Kashmir from the Pakistani-controlled part, has been largely honoured for more than three years. Infiltration of militants from Pakistani-held Kashmir has tapered off. It always does when winter snow blocks the mountain passes. But an Indian-built fence and, it seems, a tighter Pakistani rein on the jihadist groups on its side of the line are also making a difference. The number of militants fighting Indian rule has dwindled to perhaps 1,000-1,200. At best, the Indian military presence is disproportionate.

More important, withdrawing soldiers would be hugely popular in Kashmir, where alienation from Indian rule runs deep. The demand for demilitarisation comes not just from separatists who boycott Indian-run state elections, but also from mainstream political parties that contest and win them. Many in Kashmir resent and fear the militants; but most feel the same about the army. When it was revealed earlier this year that, in order to boost their chances of promotion, Indian soldiers had been executing innocent civilians and claiming they were militants, the reaction was one of fury, but not of surprise. Hundreds of Kashmiris—thousands, say some human-rights activists—have vanished, into what many assume are the clutches of the security forces. The withdrawal of the army would be widely seen not as the removal of a protective shield, but as the lifting of an oppressive curse.

Third, withdrawing troops from Kashmir would be a great boost to the painstaking rapprochement between India and Pakistan. As Pakistan's prime minister, Shaukat Aziz, repeated at a regional summit in Delhi this week, a settlement in Kashmir is "the cornerstone of a sustainable, expanded relationship". It is also, if the leaks from back-channel contacts between the two countries are to be believed, tantalisingly close. Their positions, informally at least, are converging on a solution not so different from the status quo. India would drop its claim to the Pakistani-held part of Kashmir. Pakistan would make the

far harder concession, dropping both its claim to Indian-held Kashmir and its demand for a plebiscite on the territory's future. This would be very like a Pakistani admission of defeat. Turning the Kashmir Valley into something less like a land under Indian military occupation would go a long way towards smoothing out that dent in Pakistan's pride.

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On Amnesty International and human rights, Iraq, tax breaks

Apr 4th 2007
From The Economist print edition

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Debating human rights

SIR – Contrary to what you claim, Amnesty International takes no position on the validity of political or economic systems, whether capitalist or socialist, only on their impact on human rights ("Stand up for your rights"; "Many rights, some wrong", March 24th). International law has always recognised economic, social and cultural rights as well as civil and political rights. After consulting with our members we broadened our remit in 2001 to make our work for individuals more effective. For the man in Zimbabwe who has been forcibly evicted, the right to housing is no less real than the right to be free from police brutality. To the woman raped in the Democratic Republic of Congo, the claim for medical care is no less a priority than the demand for justice.

Amnesty is the world's largest human-rights group precisely because it has always evolved in response to changing realities while remaining true to its core values. Our campaign to abolish the death penalty was launched when executions were widely accepted. Today we are leading the fight to stop violence against women, combat discrimination against refugees, oppose forced evictions, challenge restrictions on internet access and resist the backlash against civil liberties in the name of counter-terrorism.

Our report on "honour killings" of women in Pakistan broke new ground in the struggle to uphold the right to life. Our reports on Zimbabwe and North Korea exposed the political manipulation of food as a way to starve dissidents. Our report on migrants in China portrayed the dark side of its economic development. We were among the first to document the use of rape as a weapon of war in Darfur. We were also among the first to call for the closure of the prison at Guantánamo Bay and expose the collusion of European governments in American-led "extraordinary renditions". Our members and supporters continue to grow, as do our funds. These are hardly indicators of an organisation in mission drift.

Lilian Gonçalves
Chair, international executive committee
Amnesty International
London

SIR – Economic and social rights are not new nor the product of "intellectual fashion". At the United Nations today, developing countries are firm supporters of these rights primarily because of the dire situation in which most of their populations find themselves. As for the supposed lack of clarity in applying economic and social rights, is it really any easier to quantify equality, or to ensure free elections, rights one presumes you consider "real"? It is now recognised that you cannot enjoy one set of rights without the other and it was this vision that inspired the drafters of the Universal Declaration of Human Rights in 1948.

Louise Arbour
United Nations High Commissioner for Human Rights
Geneva

SIR – Have a look at the Magna Carta, where you will find an extensive preoccupation with security of tenure, fair work-conditions and the welfare of the many, ie, the core elements of social- and economic-rights law. The difference between 1215 and today is that now action is aimed at the equitable distribution of these rights.

Claude Cahn
Centre on Housing Rights and Evictions

Geneva

SIR – The trouble with rights like “adequate housing”, “water and sanitation” and “food” is that they often achieve the exact opposite of their aims because they invite state intervention into all kinds of areas. Thus, these rights run the risk of bringing about exactly what human rights are supposed to prevent: an omnipresent state.

Reinout Wibier
Amstelveen, the Netherlands

SIR – As a strong supporter who encouraged Amnesty to expand its work I take issue with your analysis of their efforts. Next year marks the 60th anniversary of the Universal Declaration. I challenge *The Economist* to use this occasion to engage in a broad discussion on realising the full range of rights recognised in the document. You may be surprised at how seriously business leaders are taking economic and social rights.

Mary Robinson
President, Realising Rights
New York

For the record

SIR – Regarding your sober reflection on the Iraq war and the “criminal negligence” of George Bush's administration, you offer the lamentable excuse that if only the war had been undertaken with “humility, honesty and courage” things might have turned out differently (“Mugged by reality”, March 24th). You are badly mistaken. The greatest tragedy here was the colossal deception that enabled Mr Bush to embark on a wholly unnecessary war of choice against an enemy that posed no meaningful danger, sinking our republic to a new low.

The shameful cheerleading of a submissive Congress and news media for this enterprise at a time when bravery was truly called for makes you complicit. You owe me, the father of a young soldier thrice deployed to Baghdad, an apology and a promise to strive for courage next time. Because there will be a next time.

Robert Best
Evanston, Illinois

SIR – The poll you used of “Iraqi public opinion” is flawed by the same oversimplifications that undermine the occupation. At this point it is hardly meaningful to speak of Iraqi public opinion across all 18 provinces. And to lump Kurdish responses together with Sunni and Shia presents a misleading statistical consensus on many issues where these groups are sharply divided. The news media, like the administration, is too hypnotised by the historical fiction of a united Iraq to see the reality on the ground.

Jeff Carlock
Berkeley, California

SIR – You made passing reference to a “general who warned Congress that stabilising [Iraq] would require several hundred thousand troops” and who was “sacked for his prescience”. The general you are referring to, General Eric Shinseki, the army chief of staff between 1999 and 2003, made his remarks in February 2003. This was shortly before the invasion and four months before he was due to retire, which he did on schedule. One could speculate that General Shinseki may have made his comments because of his pending retirement, feeling free to speak apolitically as such, but he was obviously not sacked for making them.

Ray Davis
Longwood, Florida

Subsidising good behaviour

SIR – Your leader on the housing-market “binge” stated: “That people are free to borrow to buy their own home, should they wish, is fine. That politicians should encourage homeownership for its own sake is not. That they foster it with tax breaks, as they do in America, is daft” (“The trouble with the housing

market", March 24th). Would you apply the same logic to fostering retirement-savings through tax breaks for private pensions? Or is that somehow different?

Michael Littlewood
Retirement Policy and Research Centre
University of Auckland
Auckland, New Zealand

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Iran and the West

Sailing into troubled waters

Apr 4th 2007 | LONDON AND TEHRAN
From The Economist print edition

Reuters

Despite its decision to free the British sailors, Iran remains a problem

Get article background

THE Iranian revolution has been replaying one of its favourite old propaganda movies. In 1979, Iran and the world were gripped by scenes of 52 blindfolded American embassy staff taken hostage by Iranian students for more than a year. This time round the show was the 12-day public humiliation of British sailors and marines who were captured by the Revolutionary Guards in the Persian Gulf and were due to be released on April 4th.

Day after day Iranian television broadcast the spectacle, part farce and part menace, of the hapless Britons taking turns to confess their “trespassing” into Iranian territorial waters, apologise for their misdeed and praise the kindness of the Iranian authorities. Handwritten letters from the one woman in the group, Faye Turney, professed friendship with the Iranian people and demanded the withdrawal of British forces from Iraq.

At a football match in Tehran on March 30th, television cameras panned to the electronic scoreboard flashing “We Condemn the Invasion of the British Forces in the Blue Waters of the Persian Gulf” alongside the better-known slogans such as “Nuclear Energy Is Our Indisputable Right” and “Imam Khomeini: Israel Must Be Eradicated”. Two days later a stirred-up crowd threw stones and firecrackers at the British embassy, demanding that the servicemen be tried as “spies”.

The indignation of the British government, and its decision to seek support from the United Nations and European Union, incensed the Iranians and emphasised the weakness of Britain and the West. There was a time, said Admiral Sir Alan West, a former First Sea Lord (the head of the British navy), when British gunboats would have responded by flattening one of Iran's coastal towns. Those days are long past (see article).

Then all of a sudden this week, Tehran decided that it had done enough Brit-baiting, either because it did not want more international opprobrium, or because it thought it had squeezed the full propaganda value from the affair.

On April 2nd, Ali Larijani, the secretary of Iran's Supreme National Security Council contacted a British TV channel to say that there should be a bilateral diplomatic solution. The British government said it wanted the same. An Iranian diplomat who was mysteriously kidnapped in Iraq two months ago was released just as mysteriously, and Iraq said it was trying to secure the freedom of five Iranian officials arrested by American forces in January.

It was left to President Mahmoud Ahmadinejad to deliver the finale on April 4th. He berated Britain for scheming in Persia for the past century. Then he pinned a medal on the chest of the seamen who led the “brave” capture of the Britons and announced that, as a gift to Britain for Easter, he would pardon the British servicemen and release them immediately.

The incident says much about the volatile mixture of confidence and paranoia that swirls in Tehran these days. Iran knows it is one of the main beneficiaries of America's invasions of Iraq and Afghanistan, and of Israel's ham-fisted war last year against its Hizbullah client in Lebanon. At the same time it faces increasing international pressure and isolation. Twice in the space of three months the UN Security Council has unanimously imposed financial and other sanctions on Iran for its refusal to halt its uranium-enrichment programme, which many believe is designed not to make fuel for civilian reactors, as Iran claims, but to build atomic bombs.

Saudi Arabia has begun a diplomatic offensive to contain Iran, shoring up Lebanon's pro-Western government and trying to revive peacemaking between Israel and the Arabs. At the same time, America has sent two aircraft-carrier groups to the Gulf and is conducting manoeuvres. A French carrier has also arrived. The defection (or “kidnapping”, as Iran says) of Ali Reza Asghari, a former deputy defence minister, may also be part of a not-so-covert war.

That Iran might lash out at the “Great Satan”, America, or less riskily against the “Little Satan”, Britain, might have been predicted. In 2004 the Revolutionary Guards, known as the Pasdaran, captured eight British naval servicemen in the Shatt al-Arab waterway and released them three days later, after parading them blindfolded on television. One of their dinghies was displayed in an Iranian museum as a war trophy. In January this year an article in *Sobh-e-Sadeq*, a magazine close to the Pasdaran, said that capturing members of the coalition forces could be “easier and cheaper than obtaining trashy Chinese goods”. Iran or its proxies would need only to “open up a purse to see a queue of blond, blue-eyed officers taken like bowls of seed by hungry fighting cocks”.

Signs of immaturity

Twenty-eight years after Ayatollah Ruhollah Khomeini's followers swept away the pro-Western dynasty of Shah Reza Pahlavi and crushed left-wing rivals, Iran has yet to make the transition from youthful rebellion to mature statehood. It may be less zealous in exporting its revolution these days, but it still draws strength from the troubles around it—some of which it has helped to aggravate. The revolution in Shia Iran helped stir the belief among Sunni extremists elsewhere that Islamist rule could be recreated in modern times. It also established the idea of deliberately seeking “martyrdom”: Iran sent countless young men to clear minefields with their bodies in the war against Iraq in the 1980s, inspiring Hizbullah suicide-bombers who in turn set the example for Hamas in Palestine, al-Qaeda and Iraq's sectarian killers.

Iran is still torn between a sense of ancient Persian nationhood and the universality of radical Islam, between resentment over colonial subjugation and ambition for regional hegemony. The Bible memorialises Cyrus, the ruler of ancient Persia, as the man who freed the Jews from exile in Babylon; yet today's Iran of President Mahmoud Ahmadinejad denies the Nazi Holocaust of the Jews and seems ready to entertain another one by talking of the need to wipe Israel “from the pages of time”. It adopts the tactics of the weak by backing militants in the region (and by taking hostages), yet appears to be seeking the ultimate power of nuclear weapons.

How to deal with such a large, important country that refuses to live by the diplomatic rules of the rest of the world? Since the trauma of the American embassy siege of 1979, America has tried to squeeze Iran politically, militarily and economically in the hope that the regime would fall, but in vain. The Europeans have preferred an awkward policy of “engagement” in the hope of encouraging Iran to moderate; for years they tried to support “reformists” against “conservatives”, but this too was a failure. The reformists were discredited and set aside as lackeys of the West and, with the election of Mr Ahmadinejad in 2005, the choice is now between different kinds of hardliners—pragmatists who want to avoid confrontation, and neo-revolutionaries who seem to court it.

The capture of the British servicemen appears to have been a deliberate provocation by zealots in the Pasdaran, which constitutes an ever more powerful state-within-a-state. Despite uncertainty over the territorial waters in the Gulf, there have been few, if any, disputes in recent years over the demarcation line in the sea. The Pasdaran's speedboats surprised the British crewmen at their most vulnerable moment, as they clambered down into their dinghies after a routine inspection of an Indian-registered cargo ship in Iraqi waters (according to the British). Most suspiciously, the Pasdaran were equipped with video cameras to record the humbling of the British and the Iranian colours fluttering over the Royal Navy's White Ensign.

It is less clear what the Pasdaran hoped to achieve. Were they demonstrating the damage they could cause to American and British forces if attacked, or trying to secure bargaining chips to secure the release of Iranians captured in Iraq? Or was this an attempt to regain advantage in the internal political debate in Iran? Perhaps all three. One further aim may have been to send a message of strength to neighbouring Arab countries: many of the British “confessions” were first aired on Iran's Arabic-language TV network, *al-Alam*.

In a country that was twice occupied by Britain in the 20th century, most Iranians believe that their waters were invaded. John Limbert, one of the American embassy hostages and now a professor of politics, sees striking parallels with the way that radicals in 1979 set out to create a *fait accompli* to radicalise the climate. But there are also differences. “In 1979 it worked. There were hundreds of thousands of people outside the US embassy; 200 people at the British embassy is pretty small. It looks like people in the regime don't want to go back to the old days.”

With the end of the long Persian new year holiday, the pragmatic wing apparently reasserted control. Still, the release of the servicemen was probably determined as much by negotiations within Iran as between the foreign ministries of Iran and Britain. It is always difficult for outsiders to divine the shifting alliances in Iranian politics. Nicholas Burns, an influential American under-secretary of state, recently said that the Iranian leadership was “not a monolithic regime; it's a cacophonous government that is fighting, we think, within itself.”

AP

Iran's least reasonable face

The Great Satan's weakness

Under the Bush administration, America has gone from a policy of “dual containment” of Iran and Iraq to one approaching dual failure. It removed the iron rule of Saddam Hussein, but created an anarchic void in Iraq into which Iran has extended its influence. Exhausted by the insurgency in Iraq, America now struggles to deal with the more acute threat of weapons of mass destruction posed by Iran's nuclear programme. America's Arab allies may be terrified by the strengthening of Iran, but they are even more terrified by the prospect of American military action to destroy Iran's nuclear facilities.

In Europe there is a degree of acceptance that, sooner or later, the world may have to deal with a nuclear-armed Iran. Some in the Bush administration, though, regard that prospect as even more horrendous than the consequences of attacking Iran, which may include more instability in Iraq and elsewhere, more terrorism and the disruption of oil from the Persian Gulf. There is no certainty, moreover, about how far military strikes can set back the nuclear programme, if at all.

George Bush has repeatedly said that “all options” remain on his table, by which he means the use of military force. But the one option he has seemed less keen on is the idea, advocated by many, of seeking a “grand bargain” with Iran on a whole range of disputes, from the nuclear question to peace with Israel. When America was strong, it felt it did not need to deal with Iran. Now it is worried by the prospect of looking weak.

Nevertheless, there has been a real change of policy since the days when Mr Bush said Iran was part of the “axis of evil”. His administration has offered to join nuclear talks if Iran suspends uranium

enrichment. Ray Takeyh, an expert on Iran, argues in the latest issue of *Foreign Affairs* that America should go further and talk to Iran without preconditions. Iran's rise is unstoppable, he says; better to deal with the pragmatists, and strengthen them, rather than give free rein to the radicals. He may or may not be right. Another possibility is that the prospect of normalisation with America may cause real ideological upheaval in the regime. If so, talking to the Great Satan may scare the mullahs more than sanctions.

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Britain's military power

From the Falklands to the Gulf

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A calculated stunt highlights the difficulties of Britain's role in the world

THE week that saw British servicemen humiliated by a former client state was also, as it happened, the one when Britain was marking the 25th anniversary of the Falklands war. On April 7th 1982, five days after the invasion of the Falklands, the government of Margaret Thatcher announced an exclusion zone around the remote south Atlantic islands and signalled that it would get them back by force.

For Tony Blair, Britain's prime minister, the symmetry is uncomfortable. It contrasts Mrs Thatcher's conduct of the war in the Falklands—the first time the country had asserted its military might since Suez in 1956—with his own difficulties, in Iraq in particular. Worse, for a man who believes in his ability to persuade, Mr Blair is out of touch with his people. In a YouGov survey for the *Daily Telegraph* this week, 61% of respondents said Britain was right to retake the Falklands, while 72% think the country should hesitate to get involved in conflicts that do not concern it. The British people want out—most clearly from Iraq, which contributed directly to the run-in with Iran, but also now from Afghanistan.

Of course the British, like most people, love success, and respect the bravery of their forces. The findings of one survey do not an isolationist nation make. The same poll found that most people are still in favour of British participation in peacekeeping missions—so long as they can be made to work.

The Falklands are remembered, rightly or wrongly, as a clearly defined and even noble task that coincided with a post-1970s quest for national renewal. The crude need of the British to feel better about themselves was captured in a controversial tabloid headline, the *Sun*'s “GOTCHA”. It was written after a British submarine sank an Argentine cruiser, the *Belgrano*, that was sailing near the maritime exclusion zone on May 2nd, 1982. More than 300 Argentines died.

Mr Blair has offered the British people a higher moral cause, at first a duty of humanitarian intervention and more recently the need to confront terrorism around the world. He has taken Britain into wars in Afghanistan, Iraq, Sierra Leone and the Balkans; Sierra Leone has been a success; Afghanistan is uncertain. He has also committed military forces to keep the peace in Bosnia and Kosovo. On January 12th 2007 he boarded one of the navy's newest ships, *HMS Albion*, and told the country's defence establishment that in a post-September 11th world it is more important than ever for Britain to project “hard power”.

Based on a 1998 Strategic Defence Review, Britain is spending £14 billion ($28 billion) to improve its ability to conduct expeditionary operations far from home. Under Mr Blair, however, the armed forces are far more active than they planned to be. The army, in particular, is overstretched, and the navy is being forced to reduce the battle-readiness of some ships to concentrate men and equipment in those on front-line duty.

Still, Britain is investing heavily in military kit. Typhoon jets are coming into service, a new generation of ships is being introduced and there are plans to build two large aircraft carriers. In many ways, Britain will soon be better placed to project military might than at any time since the late 1960s, when an economic crisis forced Harold Wilson, another Labour prime minister, to decommission much of Britain's navy and pull back from “east of Suez”. For instance, *HMS Albion* is Britain's first Landing Platform Dock, designed to sit in the waters off troubled states and despatch fast amphibious craft around its theatre of operations.

In the Falklands war, by contrast, troops had to be moved to the South Atlantic aboard the *Canberra*, a liner, and requisitioned merchant ships. The war's main aircraft carrier, *HMS Hermes*, was about to be decommissioned as unsuitable for fighting Soviet submarines.

Today, Britain—with an economy that has grown without recession for 15 years—has the money to buy

military hardware that could only be dreamed of in the early 1980s. It also has a prime minister given to bold idealism. But a missing link has been highlighted by the past week's events in Iran. Without thoughtfulness and attention to detail (especially the detail that can be provided by good intelligence), all the military hardware in the world is insufficient to protect a state against others that bear old grudges against it. “Pardoning” the British hostages on April 4th, Iran's Mahmoud Ahmadinejad referred pointedly to problems left behind by history.

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Trade policy

The trade two-step

Apr 4th 2007 | WASHINGTON, DC
From The Economist print edition

The Bush team has agreed a free-trade deal with South Korea but also slapped tariffs on Chinese paper. Is America's trade policy going backwards or forwards?

Corbis

Get article background

TRADE deals are often concluded at the eleventh hour. This week's bilateral agreement with South Korea came even closer to the wire. The negotiators inked an accord 25 minutes before George Bush lost the right to send Congress new trade deals under the fast-track rules that limit lawmakers' ability to amend them.

A close call, but for the White House a useful boost. After six years, Mr Bush's trade achievements are modest. The Doha round of global trade talks is floundering. Many of the dozen bilateral deals passed since 2000 are more about foreign policy than free trade. The biggest prize has been a regional pact with six small countries in Central America.

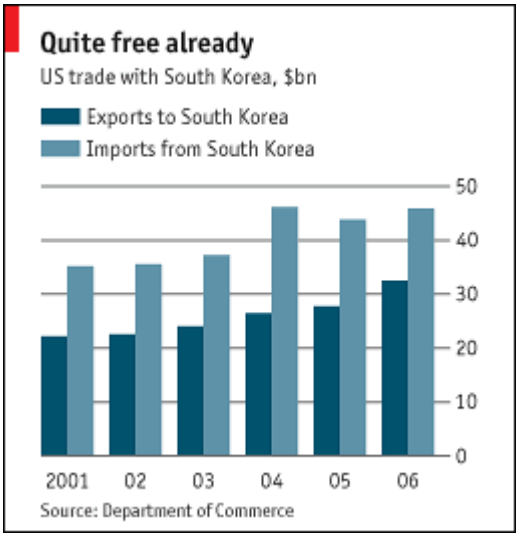
The South Korea agreement is a bigger deal. It would be the largest bilateral accord America has struck since NAFTA was passed in 1993, as well as the first with a large Asian economy. Though far inferior to a breakthrough in the Doha talks, the South Korea deal could shore up Mr Bush's free-trade record.

Yet only two days earlier, the same free-trading Bush administration slapped tariffs of up to 20% on imports of glossy paper from China, after an American firm complained that its Chinese competitors got unfair subsidies through cheap loans. The sums involved were tiny: America imports some $224m of glossy paper from China a year, less than 0.1% of all goods it buys from China.

But the symbolism was important. For more than two decades America has refused to impose anti-subsidy tariffs on countries, such as China, that it deems to be “non-market” economies. Instead, aggrieved American firms can file for anti-dumping duties if they prove that Chinese products are being sold below their supposed cost of production in “similar” countries. Now American firms will be able to file both anti-dumping cases and anti-subsidy cases against their Chinese competitors. From steel to plastic, no one doubts that American firms will soon be queuing up to use the new tools.

Welcome to the George Bush trade two-step. The theory presumably is that a few carefully targeted barriers will fend off more acute protectionist pressure from Congress and shore up political support for free-trade deals. That was the strategy

behind the 2002 steel tariffs. Temporary help for America's steel industry was deemed a necessary price for extracting fast-track negotiating authority from Congress. It was a dubious punt back then. Mr Bush squeezed fast-track through the Republican Congress, but America infuriated its trading partners, making the Doha round much harder to negotiate.



Dangerous moves

Today's gamble has even longer odds. Mr Bush has little political capital even within his own party. And Congress is controlled by the Democrats, many of whom are deeply opposed to new trade agreements, most of whom want to get tougher on China and few of whom want to give the White House a political victory.

The about-face on anti-subsidy tariffs is unlikely to forestall the passage of more comprehensive China-bashing laws, which seems all but certain this year. Instead of posturing about extreme tariffs (such as a 27.5% across-the-board levy) that are obviously against WTO rules, congressmen are determined to enact more sober (but still dangerous) legislation. One such bill enshrines the right to levy anti-subsidy duties against non-market economies. Others would declare China's currency to be just such a subsidy. Almost a dozen anti-China bills have already been introduced in Congress this year.

Nor will the Bush team's sudden China-bashing win many votes for its free-trade agreements. A few wavering Republicans may be convinced by the tough talk. But Democrats are the real barrier, both to the passage of existing FTAs and to the extension of Mr Bush's fast-track negotiating authority, which expires on June 30th.

Despite much shuttling between the Bush trade team and Charles Rangel, the top trade Democrat in the House of Representatives, the chances of a package that could buy Democratic support either for existing proposed FTAs (with Peru, Panama, Colombia and now South Korea) or for renewing fast-track, seem slim.

The Bush team has promised more money to help those hurt by trade; it has offered to get tougher on foreign labour-standards. But judging from a wish-list published by congressional Democrats on March 27th, none of that will be enough. As well as tough labour-standards, the Democrats want “immediate action” against currency manipulation in China and Japan and specific changes to individual trade-deals. The latest deal, for instance, must link the reduction of America's car tariffs to the number of American cars sold in South Korea.

The extent of these conditions suggests that congressional Democrats (perhaps with the exception of Mr Rangel) do not really want any trade deals to go through. The exact excuse differs. Labour standards are the biggest hurdle for the Latin American deals. That is less of a problem with South Korea, a richer country with strong unions. Nonetheless, America's unions have already declared their opposition.

The political calculus for extending fast-track is different. If the Doha talks make sudden progress, it is possible that Mr Bush could get a limited extension to conclude a global deal, since the Democrats will not want to be blamed for sinking global trade talks. But without such a breakthrough, fast-track extension, too, seems a non-starter. For all the nifty footwork of recent days, America's trade agenda seems headed backwards.

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Global warming

Air pressure

Apr 4th 2007
From The Economist print edition

The Supreme Court breathes down the government's neck

THROUGHOUT George Bush's presidency, the federal government has refused to countenance any regulation of the greenhouse gases that cause global warming. Whenever the subject comes up, officials tend to mumble about uncertainties. But on April 2nd, in its most important environmental decision for many years, the Supreme Court at last settled one of the biggest outstanding questions: whether the government has the authority to curb emissions in the first place.

The court ruled, by the slenderest of margins, that the Clean Air Act—a law from the 1960s designed to combat smog—gives the Environmental Protection Agency (EPA) the power to regulate carbon dioxide, the main greenhouse gas. It also said the EPA would need an excuse grounded in the original law if it decided not to use this power. It dismissed the justifications the EPA had provided for inaction—that emissions from American cars were insignificant in the grand scheme of things and that unilateral action by America would undermine efforts to achieve international consensus on global warming—as inadequate. Strictly speaking, the ruling applies only to emissions from vehicles, but a very similar case regarding coal-fired power plants is pending in federal court. The EPA says it is now examining the ruling.

It might examine it for some time, of course. Any regulations it comes up with in response might still defer action into the distant future, since the law allows the EPA to delay implementation until appropriate technology can be acquired at a reasonable cost. Even if it proceeds quite swiftly, a new president and Congress with globe-cooling ideas of their own will be in place long before any new rules come into effect.

That suits the environmental lobby just fine. They hope the ruling will spur Congress to address global warming with proper legislation. After all, it makes little sense for such an important issue to be tackled tangentially through a 40-year-old law. At the very least, they can use the ruling to rally the faithful and shame climate-change sceptics in next year's elections. And if 2009 sees the inauguration of a greener president, he or she will now have the power to dictate stricter fuel efficiency, in the form of lower CO2 emissions, without reference to Congress. As Barbara Boxer, an environmentally-minded senator from California, stated gleefully, “This decision puts the wind at our back.”

That is true of California in particular. In 2002, the state assembly passed a law regulating emissions of CO2 from vehicles, based on a provision of the Clean Air Act that allows California to adopt stricter pollution standards than the federal government (other states can then choose to follow the Californian standards if they wish). Carmakers have challenged the law, in part on the ground that CO2 was not an air pollutant—a notion the Supreme Court has now quashed.

California still needs a waiver from the EPA in order to enforce its own emissions standards. The EPA may now find it harder to withhold its permission after its setback in court. But it might argue that California does not face the “compelling and extraordinary conditions” the law requires before stricter standards can be imposed. That would prompt another protracted legal battle.

The car industry, at any rate, seems rattled by the ruling. Its trade group quickly declared that the issue of global warming is best handled at the federal level by Congress. Thanks to the Supreme Court, that now seems more likely.

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Campaign funding

The money primary

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From The Economist print edition

The presidential candidates are shattering fund-raising records

THE Clinton campaign's announcement, on April 1st, that it had raised $26m in the first quarter of this year confirmed two things that were already known: that Hillary Clinton is the Democratic front-runner and that the 2008 primary is going to be the most expensive in history. Mrs Clinton's haul is three times the previous record for this stage in the campaign; the primary candidates have collectively raised well over $100m; and the leading candidates are on track to raise $100m apiece for the primary election alone. But the announcement also raised some intriguing questions.

The most intriguing of all is how much of a front-runner is Mrs Clinton? One reason why the Clinton campaign was so speedy to release its figure—the official deadline is April 15th—is that it wants to prove that there is no real alternative. The Clinton campaign took the trouble to leak the figure to Matt Drudge, a right-wing internet journalist who broke the news of Bill Clinton's affair with Monica Lewinsky. The campaign boosted the figure by including $10m that Mrs Clinton has transferred from her Senate campaign account to her presidential war chest.

But the strategy backfired. Mrs Clinton has a huge advantage when it comes to fund-raising: she is the wife of a former president, a senator for one of the richest states in the country and the heir to the Clinton machine. Her campaign manager, Terry McAuliffe, was Bill Clinton's chief fund-raiser; her husband has been busy shaking the money trees as hard as he can. But somehow none of this seems to have translated into a convincing victory in the money primary.

The Barack Obama campaign has yet to release its official figures. But it estimates that it has raised $20m, an astonishing figure for somebody who was not so long ago struggling to pay off a $20,000 debt after an unsuccessful foray into national politics in 2000, and who was elected to the Senate only in 2004. Campaigners also point out that Mr Obama has received donations from 83,000 people compared with Mrs Clinton's 50,000. Even John Edwards, very much the third in the race, raised $14m. Mrs Clinton will certainly not enjoy the towering financial advantage that George Bush enjoyed in 2000, when “rangers” and “pioneers” competed to stuff cash into his pockets.

The big surprise came on the right. Mitt Romney leapt to the head of the Republican pack by raising $21m, $6m more than his nearest rival, Rudy Giuliani; he also reinforced his lead by lending his campaign a further $2.35m from his own deep pockets. This will be enough to guarantee him a second look—not least because John McCain only managed to raise $12.5m. Mr McCain's staff blamed his poor performance on the fact that he does not like fund-raising (last weekend found him strolling through a Baghdad market accompanied by nothing more than a hundred American troops, three Blackhawk helicopters and two Apache gunships). But such a poor showing for a big name suggests that the former navy man's campaign may be holed beneath the waterline.

How much money matters is not exactly clear. Money gives some sense of the strength of a candidate's support. It also provides the wherewithal to employ the best brains in the political business. The money primary proves that the Democratic field is divided into two tiers: the Big Three and the rest. Bill Richardson, the governor of New Mexico, raised $6m; Christopher Dodd, a senator from Connecticut, raised $4m; and Joe Biden, a senator for Delaware, raised about the same.

Money is not a guarantee of success nor is lack of it a guarantee of failure. Phil Gramm and Steve Forbes have both proved that truckloads of money do not necessarily translate into political momentum. And Bill Clinton proved that you can win the presidency without being the big money candidate. Howard Dean has gone one better and proved both that you can succeed without money and fail with it. He came from nowhere to dominate the money primary in 2004. But his $40m treasure chest did not prevent him from imploding during the Iowa primaries.

But one thing is becoming clear: the publicly-funded system, which was put in place after Watergate, is on its last legs. All the top candidates are preparing to reject public money, along with its attendant spending limits. Privatisation, it seems, is the way of the future.

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Texas politics

Brooking no DeLay

Apr 4th 2007 | AUSTIN
From The Economist print edition

Few are buying what Tom DeLay is selling

WHEN Tom DeLay, the former House majority leader, announced in April 2006 that he was resigning from Congress, he had ample reason to want to leave Washington. He had been indicted for money-laundering and repeatedly admonished by the House Ethics Committee. His lobbyist friend, Jack Abramoff, was heading to prison. Mr DeLay had become a symbol of corruption and greed, and his constituents were taking notice. A *Houston Chronicle* poll showed him losing to the Democrat in the upcoming election.

Just one year later, Mr DeLay has shoved himself back onto the scene. He has a blog and a column in the *Politico*, a respected magazine. These let him chime in on all the issues of the day. He thinks Mr Bush should pardon Lewis "Scooter" Libby, and that it is too soon to say who will win the Republican presidential nomination. He is making the television and radio rounds. Underpinning this effort is a combative new memoir, "No Retreat, No Surrender: One American's Fight".

Though slight, the book contains rather too much information. As a Texas state representative, Mr DeLay apparently drank a dozen martinis a night, cheated on his wife repeatedly, and earned the nickname "Hot Tub Tom". Despite sharing all that, the author displays little self-awareness.

For example, he once saw Bill Clinton play golf on television and suspected that the president was lying about his handicap. So he challenged him to a game. Mr Clinton did not write back. According to Mr DeLay, this proves that the president was a cheat. "You can tell who a man really is by how he plays," he writes. But not, apparently, by who he plays with. In 2000, lobbyists paid for Mr DeLay to fly to St Andrews in Scotland. Such gifts violate House rules. According to Mr DeLay, though, scandal ensued only because "Americans have been trained by the press to conclude that a congressman holding a cigar and a golf club while on a privately funded trip must be plotting evil."

Mr DeLay wants to restore his reputation and assert his place as a leading conservative. He faces an uphill battle on both counts. Compare Mr DeLay with another beleaguered Texas Republican. George Bush inspires affection within his party, and that buoys him up when he hits a rough patch politically.

Mr DeLay, in contrast, has little personal charisma. He was valuable to Republicans as "The Hammer", working tirelessly to make deals and enforce discipline among House Republicans. Out of power, he is out of favour. For some Republicans he recalls the days when the party controlled Congress and they romped over their Democratic colleagues. But most Republicans are keeping their distance, and his book is selling very slowly.

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Kentucky

Under starter's orders

Apr 4th 2007 | COVINGTON AND LOUISVILLE
From The Economist print edition

In the party's first big test since the mid-terms, Republicans are at odds

AN ELECTION is looming. The Republican who heads the executive is wildly unpopular. His scandal-plagued administration is accused of arrogance and indifference to the public mood. Others in his party are desperate to avoid losses at the polls. This scenario turned out badly for congressional Republicans last November, when an unpopular president cost them control of both chambers. Now Kentucky Republicans face a similar challenge.

The state's governor, Ernie Fletcher, has little public support. So with a primary looming next month, the state's Republicans are debating whether to ignore Kentucky's motto, “United we stand; divided we fall”, and instead take the harsh step of ditching their own incumbent.

Mr Fletcher's main challenger in the primary, Anne Northup, has one big strike against her: she lost her own re-election bid in November, when she was swept out of Congress. But Mrs Northup can plausibly claim that it was not her fault. Not only did several strong Republicans lose their seats in the national anti-Bush wave, but Democrats also devoted special attention to the Ohio River valley, which includes northern Kentucky along with Indiana and Ohio. While trying to fend off her challenger, John Yarmuth, in her Louisville district, for example, Mrs Northup also faced fierce anti-Republican advertising in the bitter race for Indiana's ninth district, which is just across the river and part of the same media market.

Now there are no neighbouring races to worry about; nor does the governor of Kentucky have much effect on policy in Iraq. Moreover, Mrs Northup's strengths would arguably help her even more in a statewide race than they did in her heavily Democratic Louisville district, where she won five straight congressional elections before last year's defeat. She won those races not by being a centrist or moderate, as Republicans in other heavily Democratic districts have configured themselves, but by combining an air of competence and concern for the district with a conservative message. That combination should work even better in more conservative parts of the state.

The Democratic field remains murky. Seven candidates have joined the primary, including two former lieutenant-governors, Steve Beshear and Steve Henry; the speaker of the state legislature, Jody Richards; and a businessman, Bruce Lunsford. Mr Beshear is one of the favourites on the left; Mr Lunsford has money to spend. But none of the campaigns has yet caught fire, and the Democrats will probably need a run-off to choose their candidate.

Although they do not yet know who the opponent will be, Kentucky's Republicans know enough about their incumbent to be worried. The details of his administration's patronage scandal, as is usual in such cases, are tedious and unseemly. Politically, it is enough to know that Mr Fletcher has pardoned lots of his own people and refused to testify. Whatever the merits of the charges, moreover, the governor has failed in general to endear himself to voters.

Last autumn, as many states prepared to elect new governors, only two—Alaska's Frank Murkowski and Ohio's Bob Taft—were more unpopular than Kentucky's. In Alaska, Republicans had faced up to their problem by replacing Mr Murkowski in the primary. The Republican nominee, Sarah Palin, then won the general election handily. So far in Kentucky, the polls show a close race between Mr Fletcher and Mrs Northup. But a growing number of influential Republicans are in favour of the Alaskan approach.

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Recovering from tornadoes

Self-sufficient Arkansas

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Dumas fends for itself

WHEN a series of tornadoes hit Dumas, Arkansas (pop. 5,000) on February 24th, not much of the town was left. The Mad Butcher grocery, Fred's discount store and the community centre vanished. The twisters wrecked 150 homes and knocked out an electricity substation, leaving thousands in the dark for six days. Twenty-seven people were injured, 25 businesses damaged or destroyed.

Fortunately, some help was at hand. Arkansas has spent several years devising an emergency management system that allows state officials from various agencies to work efficiently during a crisis. Just hours after the tornadoes, the Arkansas police and the National Guard curbed looting and ensured order. The state's forestry division cleared fallen trees off roads. Since the tornadoes struck, 140 prisoners, along with various service groups and churches, have helped Dumas recover.

Assistance from the federal government would have been nice too, of course. Straight after the tornado Mike Beebe, the governor of Arkansas, filed paperwork with the Federal Emergency Management Agency (FEMA) for direct federal and housing assistance and low-interest loans. The tornadoes' damage, only $1.5m, was low-cost as far as disasters go. The application seemed sure to get funding until, ten days later, FEMA declined Mr Beebe's request. It did not meet the threshold, $3.2m in damage, that would have let it qualify for federal disaster aid.

Local politicians complained loudly. Arkansas's junior senator, Mark Pryor, a Democrat, said that FEMA was being discriminatory and was not performing its mission. His words seemed all the truer when, less than a week after the Dumas disaster, tornadoes hit solidly Republican Georgia and Alabama. FEMA responded positively and quickly, and President George Bush went to see the storm damage. Arkansas officials quickly claimed that the administration was punishing the state for electing a Democratic governor last November.

FEMA, possibly ashamed, subsequently offered trailers and mobile homes for Dumas's homeless residents (though Arkansas still had to pay for their transport and setting up). The federal Small Business Administration has also offered low-interest disaster loans to victims. By accepting the offer, Arkansas gave up its right to appeal against FEMA's funding decision.

When Hurricane Katrina struck in 2005, Dumas housed hundreds of out-of-storm victims. Now nearly 20 months later it finds itself in the same desperate situation as the Gulf coast. Dumas's city government received about $3m a year in tax revenue before the tornadoes. With this revenue lost, local services, at least those that survived the storms, could perish, a dangerous spiral for a rural town that has already

seen much of its former population move to larger cities.

Mr Beebe says he won't let the small town die. It is home, after all, to Ding Dong Daddy, hero of a 1930s music-hall number still popular as the theme-song of an annual Dumas summer festival (though Dumas, Texas also claims him). Mr Beebe has allocated $460,000 from his gubernatorial discretionary fund toward assisting Dumas. But the state could offer more; it is currently running a projected surplus of $919m. Meanwhile, volunteers have stepped in to help rebuild a group of baseball parks just in time for the spring season, and the town's three major industries have also vowed to rebuild and remain.

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Subprime lending

Live now, pay later

Apr 4th 2007 | RICHMOND
From The Economist print edition

An overlooked player in the subprime credit business

SHORT of money? Need an instant loan? Since the early 1990s your best bet—at least in 37 states and the District of Columbia—has been to go to the low-rent end of town and find a garishly appointed loan-shop. There you can borrow money in small amounts, generally not much more than $500, against your post-dated pay-cheque. The catch is that you will be charged around $15 interest for every $100 you borrow—and that is per month.

For many people, there is no alternative. Banks refuse to make small loans because there is no money in it, and completely unregulated lending, via the internet or loan sharks, is too alarming. According to the Community Financial Services Association, an advocacy group for the industry, most borrowers are responsible and pay off their loans in a timely manner. But some don't.

The Centre for Responsible Lending, a consumer group, says that many borrowers routinely roll over their loans. This quickly ensnares them in triple-digit debt traps. A typical borrower may end up paying $793 for a $325 loan. The centre estimates that payday loans cost Americans $4.2 billion a year in interest and fees.

The industry thrives, in large part, because it operates mostly outside state usury laws that prohibit excessive interest rates. Its spokesmen say lenders need such exemptions to make a profit on their basic service, small loans. Lenders say that their returns would amount to pennies on the dollar if interest rates were capped. In fact, they say, such restrictions would put them out of business.

And that is exactly what many of their opponents would like to see—particularly when it comes to loans made to the families of soldiers. In one of the last acts of the Republican Congress, payday lenders were restricted to interest rates of 36% on loans to military personnel and their spouses. The Pentagon is worried that uniformed personnel, especially those serving in Iraq, have been losing their security clearances because of excessive debt at home. This, among other things, was leading to the costly reassignment of highly trained troops, such as communications experts, to mundane low-skill jobs.

At least 11 states have restrictions similar to those adopted by the federal government. This has virtually closed them to lenders, who this year launched an aggressive lobbying and advertising campaign to get the restrictions lifted (and, more important, to improve their dodgy image). In Virginia the industry even wrote its own bill, describing it as a “reform” measure, but then withdrew it when Tim Kaine, the governor, promised to rewrite it to include a tough clamp-down on high-interest instant loans.

One state, North Carolina, recently kicked out payday lenders by allowing the law that allowed money stores to operate there to expire. In New Mexico Governor Bill Richardson has supported a bill tightening up the relevant laws. On March 27th the Georgia House rejected for the second time a law that would have allowed payday lenders back into the state after a long absence that was the result of closing an earlier loophole.

Robert Frank, an economist at Cornell University, wrote recently in the *New York Times* that the industry—not unlike the subprime mortgage sector—is a beneficiary of the sweeping deregulation of the financial-services industry that has made credit more accessible. Its adverse consequences, he says, were “completely predictable”. Once poor people get in over their heads, they will borrow themselves into bankruptcy if the law permits; and “if we are unhappy about that, the only recourse is to change the rules.”

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Lexington

Looking for Mr Right

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From The Economist print edition

The Republicans are still pining for a champion

Kevin Kallaugher

IT IS hardly surprising, given the right's dyspeptic mood at the moment, that one of the most popular campaign slogans in Republican circles is aggressively negative: the words Rudy McRomney, with a red line through them. Rudy Giuliani is a social liberal with a colourful past who wants his wife to attend cabinet meetings, John McCain is a septuagenarian rebel and Mitt Romney is an all too smooth flip-flopper. Almost 60% of Republicans tell pollsters that they are not satisfied with their party's candidates.

Which explains the current flurry of activity on the right: activity that could end up either giving the party a boost or tearing it apart. The two most benign flurries both happen to be called Thompson, though they are not related: Tommy, a former governor of Wisconsin and a former head of the Health and Human Services Department, and Fred, a former senator from Tennessee and all-round Hollywood personality.

Tommy is not exactly a barrel of laughs, even by Midwestern standards. But he has gold-plated policy credentials as the pioneer of the most successful social-policy initiative of the past couple of decades, welfare reform. And he has a credible political strategy—relying on a surprise victory in Iowa (where he is spending much of his time) to carry him through the helter-skelter of subsequent primaries. In addition, he hails from the region with the highest concentration of swing states, the Midwest.

His biggest misfortune is that his announcement came at a time when the political world was abuzz with speculation about his near-namesake. Fred's pronouncement on March 11th that he was “giving some thought” to running for president had conservatives swooning. He immediately leapt from nothing to 12 points in polls of prospective candidates (putting him above Mr Romney). Venerable Republicans such as Howard Baker, a former Senate majority leader and chief of staff for Ronald Reagan, started rounding up support. And activists started babbling about a second coming of Reagan.

The excitement is not hard to explain. Mr Thompson is a political veteran—the former senator for Tennessee remains a familiar figure in Washington. He is also a conservative without being a crazy, sound on taxes and guns but willing to break with orthodoxy on subjects such as campaign finance (he supported Mr McCain's proposed reforms) and gay civil unions (which he thinks should be decided by the states).

More important still, Mr Thompson is a celluloid hero who has portrayed all sorts of powerful figures on

the screen, including the president, the head of the CIA, an admiral and, most famously, an aggressive public prosecutor. His screen career has not only given him a rare degree of name, or perhaps face, recognition: more people probably see him every week on “Law and Order” than will vote in the supersized Republican primary on February 5th. It has also given him a rare mastery of the media. (Mr McCain likes to claim that if he had Mr Thompson's voice, he would be president of the United States today.)

Enter Newt?

The arrival of the Thompson twins is undoubtedly a good thing for the Republicans (they might even make a neat presidential pairing). But there are other Republican candidates, either hovering in the wings or entering the race, who spell much more trouble. Especially the former speaker, Newt Gingrich.

Mr Gingrich claims that he will run only as a “last resort”. The aim of all his frenzied activity is to stimulate debate rather than boost his political chances. But he has created a new political fund-raising organisation, American Solutions for Winning the Future, and a new manifesto, “Contract with America for the 21st Century”. He is a ubiquitous figure on Fox News and the conservative lecture circuit.

But that is not sufficient. Mr Gingrich may be greeted as the prince over the water by true believers. He lights up conservative confabs like nobody else. One internal party poll showed him running second among likely Republican voters. He reminds conservatives of their glory days, back in 1995, when they were preaching revolution and crushing liberals underfoot. But he has absolutely no crossover appeal; he could not win a state-wide race in his native Georgia, let alone in the country at large. And his personal life makes Mr Giuliani look like a model of propriety. This is a man who left his first wife when she was recovering in hospital from cancer surgery and conducted an affair with a staffer while he was masterminding Bill Clinton's impeachment.

Two other high-profile Republicans also spell trouble for their party: Tom Tancredo, who announced on Monday that he is running, and Chuck Hagel, who seems to be constantly shivering on the verge of announcing. Neither candidate has a chance of winning the nomination. Mr Tancredo is a single-issue crank. Mr Hagel is hated by Republican loyalists. But both have the power either to torment their party, by forcing it to go through a painful debate, or to erode the Republican coalition by running as independents. Mr Tancredo might be able to lead a peasants' revolt over immigration, a subject with more potential to split the party than any other. Mr Hagel might be able to ignite a civil war over Iraq, particularly if “surge” fails.

All of which means that the battle on the right over the next few months will be unusually interesting. The Republicans may end up opting for a solid mainstream candidate with plenty of crossover appeal (both Mr McCain and Mr Giuliani beat Hillary Clinton and Barack Obama in head-to-head polls, and Fred Thompson may prove to be more marketable than either of them). But they just may end up tearing themselves apart, marching into oblivion behind Mr Gingrich or waging civil wars over immigration and Iraq. For once, the Democrats will have a much smoother time of the primaries.

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Politics in Mexico

An early harvest for Calderón

Apr 4th 2007 | MEXICO CITY
From The Economist print edition

Peter Schrank

Contrary to many predictions, the president is not just governing but even achieving some reforms

Get article background

SUCH was the bitterness surrounding Felipe Calderón's narrow victory in last year's election that his inauguration on December 1st was a chaotic affair, marked by fisticuffs in the country's Congress and a semi-clandestine midnight ceremony at the presidential residence. Many pundits questioned whether Mr Calderón would be able to govern at all. Just four months later, the political atmosphere in Mexico could hardly be more different: in late March, the government secured approval of a law to reform the public-sector pension system, the first important structural reform in a decade.

The change is tribute both to Mr Calderón's political skills and to the disarray of his opponents. The new president hails from the same conservative National Action Party (PAN) as his predecessor, Vicente Fox, yet there the similarity ends. Mr Fox, whose victory in 2000 ended seven decades of rule by the Institutional Revolutionary Party (PRI), aroused public expectation of change but failed to achieve much. Mr Calderón has already shown himself to be a far more skilful politician.

He began with a show of presidential authority, sending the army on ostentatious anti-drug operations across the country in response to mounting alarm at criminal violence, and ordering a reform of the police. He has also shown skill in developing alliances. He has cultivated trade union leaders as well as state governors from all three of the main parties. He seems to have reached a working arrangement with the PRI, which holds the balance of power in Congress.

Santiago Creel, Mr Fox's interior minister and now the PAN leader in the Senate, identifies a “radical change” in relations between the government and Congress. While Mr Fox went over the head of Congress to appeal directly to Mexicans, Mr Calderón, himself a former legislator, is working closely with Congress and his own party. Mr Creel says the PAN has learned how to be a party of government and the PRI under a new leader, Beatriz Paredes, has become less obstructionist.

The president has been helped by the disarray into which the opposition was plunged by the antics of Andrés Manuel López Obrador, who lost the presidential election by just 0.6% of the votes. Mr López Obrador's refusal to accept defeat extended to proclaiming himself the “legitimate” president and naming his own cabinet. But this is a hollow claim. “It is not even a shadow cabinet, it is a ghost cabinet,” says

Soledad Loaeza, a political scientist at the Colegio de México, a university.

Most Mexicans disapprove. So legislators from Mr López Obrador's centre-left Party of the Democratic Revolution (PRD) have adopted a position worthy of the finest sophist in the agora: while paying public obeisance to their man's pretensions, in practice they talk to the government. For instance, on March 29th the PRD helped the government win a unanimous vote in the Senate for electoral and judicial reforms. However, the PRD not only voted as a block against pension reform, but also had a hand in protests against it.

The pension reform raises the retirement age and phases in individual savings accounts, matching a similar reform of private-sector pensions approved a decade ago. It aims to restore solvency to a system that is already in deficit, even though Mexico is still a demographically young country.

The speed of its passage—it was debated for a week in the Chamber of Deputies and just two days in the Senate—points to careful backroom preparation by Mr Calderón's advisers. But opponents claim the law was railroaded through without attention to the fine print. “I'm in the state pension system, and I don't understand the reform,” says Lorenzo Meyer, a historian also at the Colegio de México.

Mr Calderón plays his cards close to his chest. But legislators expect the government's next measures to be reforms of tax and of Pemex, the state oil monopoly. The two are linked and are just as urgent as state pensions: Pemex supplies a third of government revenues and so invests too little, with the result that oil production is falling (it is down by 6% so far this year).

Oil aside, a tax system that Mr Creel compares to a Swiss cheese (“more loopholes than substance”) raises just 12% of GDP, low even for Latin America. But reforming it is highly contentious: Mr Fox twice tried and failed. Consensus may be possible. Agustín Carstens, the finance minister, has ruled out levying VAT on food and medicine—the proposal that led to disaster for Mr Fox.

Mr Calderón's disciplined consensus-building may only take him so far. He is unlikely to be able to round up the votes from the PRI and PRD needed to change the constitutional taboo against private investment in energy, for example. From the other side, he also faces potential dissension in his own camp. That is especially so when it comes to reforming Mexico's shoddy schools. Josefina Vázquez, the education minister, wants to introduce evaluations of teachers. That will be resisted by the mighty teachers' union led by Elba Esther Gordillo, a former PRI stalwart who is a close ally of the president.

Some of the more traditional conservatives in the PAN are wary of Mr Calderón's alliances. “Now that we are in power we run the risk of becoming like the old PRI,” says Manuel Espino, the PAN party president. Mr Calderón has been tolerant towards PRI governors accused of corruption—something that the PRD opposition ascribes to a pact between the new ruling party and the old.

Yet such a pact, if it exists, may be the only way to get things done. Mr Fox was full of good intentions but clueless when it came to strategy. Mr Calderón appears to have a sharp sense of priorities. He has yet to win over many of those who voted for his opponent, but he has certainly made a promising start.

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Brazil

Lula opts for a quiet life

Apr 4th 2007 | SÃO PAULO
From The Economist print edition

A slow-motion reshuffle sets the pace for an unambitious second term

LUIZ INACIO LULA DA SILVA is not a man in a hurry. Five months after he won a second term in a presidential election, he has finally put the finishing touches to a new cabinet. This massive 36-member contraption should guarantee him relatively tranquil relations with Congress and a safe if unspectacular passage through the rest of his four-year term.

The second edition of Lula's government is likely to produce fewer rows between economic reformers and left-wing dissenters. The strongmen of the first term—the pro-reform finance minister Antonio Palocci and the chief of staff, José Dirceu, who largely supported him—were toppled by scandal. Their successors are Guido Mantega and Dilma Rousseff, who are less convinced of the need to curb an overgrown state.

Lula's left-leaning Workers' Party (PT), which is even more sceptical, has lost influence. It will remain the biggest force in the cabinet with 16 seats, including the key economic-policy jobs. But none of its ministers combine administrative clout with political star-power.

In his first term Lula's reluctance to share power with other parties led to a congressional vote-buying scandal that nearly destroyed his presidency. This time he has given five plump ministries—controlling 44% of the federal investment budget—to the centrist Party of the Brazilian Democracy Movement (PMDB), the largest in Congress. Luciano Dias of the Brazilian Institute of Political Studies sees in this the start of a durable centre-left alliance that could realign the country's politics.

But this core is surrounded by a messy periphery. In all, eight substantial parties and nearly all the smaller ones in Congress support the government, many of them attracted by the hope of jobs and pork. Lula should be able to count on at least 60% of the lower house and a narrow majority in the Senate. That, plus his popularity—48% of Brazilians rate his government as “good” or “excellent”—mean that he is as strong as any Brazilian president can hope to be. With the weakening of the PT and the humbling of its former chiefs, his personal power has grown.

But what will he do with this power? His ambition does not seem to have kept pace. With Mr Palocci at his elbow, Lula might have scaled back the ruinously expensive pension system, brought sanity to labour-market regulation and simplified a fiendishly complex tax code. Instead he seems more inclined to husband his political capital than to spend it.

Pension reform will be dealt with by a “forum” that is unlikely to recommend radical change. The pensions ministry has gone to a union leader, and the labour ministry to the anti-reform Democratic Labour Party. Lula would like to tackle taxes, but may not have the wherewithal to compensate states that would suffer.

So the success of his second term is likely to depend on more modest initiatives. He has launched a promising education plan, which would tie spending to results. Congress is considering several microeconomic reforms, such as streamlining government procurement and environmental licences.

Such measures would doubtless be useful. But the government is still sending mixed signals about the independence of regulatory agencies, and this will discourage private investment in infrastructure. The infrastructure projects in the “growth acceleration package” unveiled in January are making slow progress.

Some Brazilians would prefer a sense of urgency. Take the chaos that has engulfed Brazil's airports for the past six months, the result of a creaking air-traffic control system operated by disgruntled air-force staff. On March 30th the controllers went on strike. That finally prompted Lula, a former trade-union leader, to act. He criticised the strike but yielded to its demands, agreeing to transfer some controllers

from the air force to a new civil agency which will pay them higher wages.

Concord bought with higher public spending is at the heart of the Lula formula. So far this has been carried out with just enough regard for macroeconomic prudence. The president is not sweating. Economic growth, buoyed by a recent statistical revision, is respectable. The financial markets—and the voters—are in a forgiving mood. Lula has just returned from talks at Camp David with George Bush, a welcome recognition of Brazil's growing international clout. These may be leisurely times for the president, but for the moment they are good ones.

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Canada's seal hunt

On thin ice

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From The Economist print edition

Global warming endangers a grisly ritual

THE activists have armed themselves with helicopters, video cameras and outrage. The hunters have their sharp hooks and blunt clubs, often combined into a single sinister-looking instrument of Norwegian design known as a *hakapik*. Canada's seal-hunting season officially began on April 2nd along with the usual row between those who denounce it as senseless cruelty and those who defend it as a traditional and necessary part of local livelihoods. Thanks to global warming, however, the argument might soon become redundant.

This year there has been less of the usual footage of burly men bashing small furry skulls and of blood smeared across the ice floes. That is not because the hunters have become less aggressive, but because suitable seals have become scarcer. Thanks to an unusually warm winter, the ice is melting early in the southern Gulf of Saint Lawrence, where hunting began this week. The seal pups on which the hunt preys are reared on the ice until they are old enough to swim. So the premature thaw has drowned them—before the hunters had the chance to kill many.

The government argues that the hunt brings income to struggling fishing communities. The sealers add that it helps to preserve diminished fish stocks (though scientists dispute that). But even in Newfoundland, the province most involved, it benefits only 6,000 people, according to the government's own reckoning. The total value of the pelts landed during last year's bumper hunt was C$33m ($29m). Moreover, the government helps to make the pursuit profitable by handing out sealing licences almost free, although it charges high fees to fishermen.

But campaigners against seal hunting are not wholly beyond reproach either. Few bother to make it clear that the killing of the youngest pups with fluffy white pelts has been banned for 20 years. They also make it sound as if the seals are endangered. In fact, the seal population has tripled since the 1970s.

This year, because of the higher natural mortality among pups in the south, Canada's Department of Fisheries has reduced the quota for the hunt to 270,000 seals, from 335,000 last year. Most of these will come from colder waters, both in the northern Gulf of Saint Lawrence and off the coast of Labrador, where there is still plenty of ice.

The sealers in those areas tend to hunt with rifles, and so do not provide such good fodder for media campaigns. The *hakapik*-wielders of the southern Gulf, meanwhile, are becoming an endangered species themselves. Only two of 40 eligible boats from the region bothered to join in the hunt on the first day, because of the shortage of prey. For four out of the past five years, there has been less ice than usual. Nature, or at least climate change, seems to have it in for seals and their clobberers alike.

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Argentina and the Falklands

Their island story

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Bitter memories and a popular cause

Reuters

AS IN the tango, extravagant advance was followed by swift retreat. In the run-up to the 25th anniversary of the war over the islands that Britain calls the Falklands and Argentina the Malvinas, Néstor Kirchner rattled his nationalist sabre. Argentina's president announced that he would pull out of a 1995 agreement with Britain regarding oil and gas exploration, and ban from the mainland energy companies that do business in the Falklands. Then, to Argentines' surprise, Mr Kirchner stayed away without explanation from an April 2nd ceremony in Ushuaia, the capital of Tierra del Fuego, at which veterans marked the day they landed in the islands.

A quarter of a century on, the war evokes complex feelings among Argentines. It was launched as a desperate bid for popularity by a reviled dictatorship. It ended 73 days later in humiliation, as Argentina's ill-equipped conscripts surrendered to the British task-force. It cost the lives of 649 Argentines and 258 Britons. The dictatorship fell shortly afterwards.

The country remains united in its belief that *las Malvinas son argentinas,* as the constitution and graffiti proclaim. That sentiment comes from geography—the islands are 7,800 miles (12,500 km) from Britain but just 250 miles from Argentine Patagonia—and history. A small Spanish settlement on the islands from 1774 to 1811 was eventually replaced by an equally tenuous Argentine outpost in the late 1820s. This was ejected by the Royal Navy in 1833.

The humiliation of defeat in 1982 caused Argentina to downplay the dispute. Carlos Menem's government restored relations with Britain in 1990, and renounced the use of force to pursue its claim. The two countries agreed to park the issue of sovereignty under an “umbrella” and to collaborate on practical matters.

While Argentina has suffered economic ups and downs, the war liberated the Falklands from decline: thanks in large part to the sale of fishing and oil-exploration licences, the 2,900 islanders enjoy a GDP per head of around $50,000 a year—among the highest in the world. Britain still spends some £160m ($310m) a year on their defence.

Mr Kirchner's popular government is the most nationalist of any since the war. As a Patagonian—he is a former governor of the province of Santa Cruz—he has a particular interest in the Malvinas issue. But he was also an opponent of the dictatorship and is a critic of the armed forces.

He has cancelled the charter flights that linked the island to the mainland, and stopped sending officials to bilateral meetings on fishing. His diplomats have stepped up their verbal campaign at the UN, where they demand that Britain opens negotiations to end an “illegitimate occupation”. He has also taken steps to help the war veterans, who were the victims of pitiful neglect. At least 350 (out of some 20,000) have committed suicide. Mr Kirchner tripled their pensions and may expand their health care.

With a presidential election due in October, many expected Mr Kirchner to use the anniversary to bang the nationalist drum. Some commentators attributed his absence from the Ushuaia rally to a fear of protests by striking teachers from Santa Cruz. It was left to the vice-president, Daniel Scioli, to pledge “we will recover what belongs to us”.

That will not happen soon, if ever. Britain's armed forces may be smaller than in 1982 but so are Argentina's; anyway, polls show only 20% would support another attack. Diplomacy is their best hope.

British sovereignty over the Falklands has never been tested in an international court. In 1984 a House of Commons committee said it was “unable to reach a categorical conclusion” on the validity of the British claim. But the invasion hardened the islanders' hostility to Argentina, and quashed talk in Britain of ceding sovereignty in return for a long lease. Under the principles of continuous occupation and self-determination, the Falklands are British and happy to remain so.

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Japan and China

Peace breaking out

Apr 4th 2007 | TOKYO AND BEIJING
From The Economist print edition

A concerted effort to improve relations in the shadow of historical grudges

David Simonds

Get article background

THE way the Chinese like to put it, the trip to Beijing last October by Japan's new prime minister, Shinzo Abe, “broke the ice”. The two countries' relationship had been plunged into the chiller by the provocative visits of Mr Abe's predecessor, Junichiro Koizumi, to Yasukuni, the Tokyo war shrine that glorifies Japan's militarist past. Now, the trip that Wen Jiabao will make to Tokyo and Kyoto on April 11th-13th, the first visit to Japan in more than six years by a Chinese prime minister, will be the “ice-melter”. Optimism abounds on both sides. But it is wishful thinking to expect the problems between Asia's two biggest powers to be reduced to a few puddles of warm water.

For now, China is determined to do everything to make Mr Wen's trip a success. Take the issue of the so-called “comfort women”. Mr Abe has in the past month caught himself up in an uncalled-for furore by refusing to admit that the Japanese imperial army coerced Korean, Chinese and other women to work in brothels in the second world war. This managed to offend even Japan's staunch ally, the United States. Yet the Chinese government, usually quick to take historical offence, has studiously ignored the fuss. Indeed, over more recent abductions that Mr Abe cares very deeply about—of ordinary Japanese kidnapped by North Korea during the 1970s and 1980s—Mr Wen himself expresses sympathy for Japanese concerns.

As for the Yasukuni shrine, to which Mr Abe has traditionally been a more committed visitor than has Mr Koizumi, the Chinese believe that they have an understanding from him that he will not go while he is prime minister. Afterwards, says one Chinese policymaker, he can even go and live at Yasukuni, for all the Chinese will care.

If this minimum requirement—no prime ministerial visit, or at least no public one, to Yasukuni—is met, then the Chinese government seems determined to build a new “strategic partnership”. Japan seems inclined to reciprocate. In a surprisingly short time, a wide range of topics has come up: economic and environmental co-operation; mechanisms to ease territorial disputes in the East China Sea, complicated by possibly large deposits of gas and oil; even confidence-building measures between the two countries' armed forces.

Mr Wen's visit will formalise a new cabinet-level dialogue on economic co-operation. In addition, Japanese firms will be offered the chance to bid for nuclear-power projects, as well as for parts of proposed high-speed railway lines between Beijing and Shanghai, Beijing and Wuhan, and Dalian and Harbin in Manchuria—whose railways imperial Japan once controlled. Japanese investment and know-how will be sought for environmental projects, including on energy efficiency.

The dispute in the East China Sea is potentially explosive. The hydrocarbon deposits fall on both sides of the median line between the two countries that Japan says should be the boundary between their respective exclusive economic zones. China does not recognise the boundary, and is already extracting gas from a field which straddles it. Progress over the dispute appears slow—a seventh round of bilateral talks ended last week in Tokyo. Yet participants say that understandings have been reached in important areas. In particular, China has accepted that the solution lies not in focusing on prickly issues of territoriality, but on joint development of the disputed fields. The haggling is now over precisely which areas should be developed. Meanwhile, Chinese officials say their vessels carefully avoid crossing the disputed boundary. There is talk of establishing a hotline between the Japan Coast Guard and the China National Oceanic Bureau, to co-ordinate search-and-rescue missions in an increasingly crowded sea.

Dates, damn dates

Military relations also appear to be warming. A similar hotline is expected between the two countries' navies, partly in order to prevent incidents such as accidental collisions at sea from escalating. Defence ministers plan reciprocal visits. The official Chinese press also reflects the new warmth. *Nanfeng Chuang*, a weekly magazine, reported on April 1st that Japan “naturally” had concerns about China's military expansion, given its territorial disputes with its neighbour—a departure in the press from the usual claims of a resurgent Japanese militarism. Now there is talk of an official visit to Japan later this year by the Chinese navy, with the prospect (hard, until recently, to imagine) of the five-starred red flag flying in Tokyo Bay.

In a rare honour, Mr Wen has been invited to address Japan's parliament, where he will suggest that China is rising, but along a peaceful incline; he will invite Japan to share it. As well as meeting politicians and Emperor Akihito, Mr Wen has asked to chat to students and farmers. He is also to meet the head of *Soka Gakkai*, Japan's largest Buddhist organisation, with 8m households. The charm offensive, says a Chinese diplomat, is meant to show people that China has a “new idea” about Japan. This is unlikely ever to extend to support for Japan's bid for a permanent seat on the United Nations' Security Council. But with so many other obstacles blocking UNSC reform, that can be overlooked.

China's push for better relations involves some political risk at home—and not least because Mr Abe, having opened to China, has to survive upper-house elections in the summer. The months ahead are studded with sensitive anniversaries related to Japan's wartime depredations in China. Any of these could rekindle the anti-Japanese sentiment that erupted into unruly demonstrations in 2005. China's state media emphasise that this year should be celebrated as the 35th anniversary of “normalised” relations with Japan. Yet ordinary people are more likely to note that July 7th will be the 70th anniversary of the start of Japan's all-out invasion, and December 13th that of Japan's worst atrocity in China, the Nanjing massacre. Last month an adviser to China's parliament proposed that September 18th be named as a “day of national calamity” because of Japan's occupation of Manchuria beginning on that day in 1931. The icebergs are melting, but historical issues still make up their underwater mass.

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Cambodia's local elections

Hun Sen wins again

Apr 4th 2007 | PHNOM PENH AND POIPET
From The Economist print edition

And intends to go on and on

KHOM SARAT anxiously scans the electoral roll for her name but cannot find it. She is in a hurry to go to work, at one of the many casinos in Poipet, a growing tourist town near Cambodia's border with Thailand. “I will be very upset if I can't vote,” she says. Many voters seem to have been assigned to polling stations they did not expect. Officials from the opposition Sam Rainsy Party (SRP) try to help them, but some get fed up and leave without voting. As a result, said election monitors, turnout in Poipet was less than half the national average of about 70%.

Such scenes have led, inevitably, to opposition claims that Cambodia's local-commune elections on April 1st were riddled with fraud. There were also reports that the ruling Cambodian People's Party (CPP), led by the prime minister, Hun Sen, had treated voters to meals and gifts. San Sean Hor, a CPP candidate in Poipet, denies this and says the SRP is a poor loser. It lost, he says, because it “did not know the heart of the voter”.

AFP

A good party. But it lost

The SRP had hoped to do well in Poipet, having courted workers at the casinos. But preliminary results showed the ruling party cruising to victory, winning seven of 11 seats. Nationwide, the CPP again crushed its rivals, winning control in 1,592 of the 1,621 communes, just six less than in the previous election in 2002. The SRP improved its tally from 13 to 27 but mainly at the expense of Cambodia's fading royalist movement, which recently split for the umpteenth time. A breakaway faction led by Prince Norodom Ranariddh, the movement's leader not long ago, seems to have won no communes (official results are not due until April 24th) and the rump royalist party, FUNCINPEC, won only two, down from ten last time. Prince Norodom, recently sentenced to 18 months' jail in a lawsuit over FUNCINPEC's headquarters, has fled abroad and could not campaign.

The election was far from perfect. However, Tarikul Ghani, observing it on behalf of America's National Democratic Institute, notes that there were fewer complaints and notably fewer politically motivated murders than last time—and more candidates.

It is only ten years since Mr Hun Sen staged a bloody coup to eject Prince Norodom from their joint prime ministership, amid open street warfare between political rivals. It is just three decades since the horrors of Pol Pot 's “year zero”, when perhaps a quarter of the population died. Considering its recent history, Cambodia is not doing so badly. Mr Hun Sen no longer needs to deal with his foes as harshly as he once did. Chea Vannath, a social scientist, who survived a Khmer Rouge prison camp, says the prime minister has become skilful in provoking splits among his foes and at harrying them through the courts. His party's grip on power at local and national level looks unassailable, especially now that the Cambodian economy is booming—it grew 10.5% last year and may grow 9% this. Ms Chea says he is a far better orator than any rival. He should win national elections in 2008 easily.

So confident is Mr Hun Sen these days that in January he boasted that he would not retire until he was 90. He turned 56 this week and may not last quite that long, but seems sure to run Cambodia for the foreseeable future. His critics groan at this, accusing him of running a corrupt one-man state. But the prime minister, in turn, is reported to get furious that they never give him credit for, as he sees it, bringing stability and progress to a devastated land.

Mr Hun Sen is a keen scholar of Cambodia's ancient rulers, looking to them for inspiration on achieving greatness. *Cambodge Soir*, a daily, recently reported that he had financed the publication of a book about Sdach Korn, a commoner who, in the 16th century, routed the country's monarchy and created a less

hierarchical society. As the newspaper noted, Mr Hun Sen sees his idol as a bringer of peace and prosperity. Some historians remember him as a man thirsty for power, who never hesitated to take it by force.

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Kashmir

Troops out?

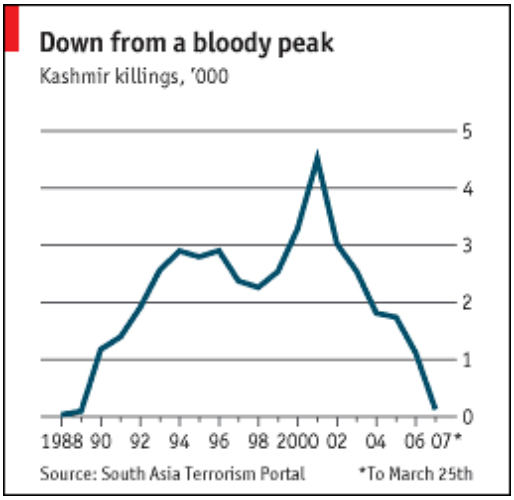
Apr 4th 2007 | SRINAGAR
From The Economist print edition

India tries to placate critics in Kashmir of its huge military presence there

WHAT looked like a looming disaster for India's ruling Congress party in the state of Jammu & Kashmir has been resolved with a flourish. But the political triumph does not answer the question that provoked the crisis: should India keep an estimated 600,000 troops in the state? The insurgency they are fighting is simmering far less intensely; relations with Pakistan, a sponsor of their enemies, have much improved; and the military presence in the state is deeply unpopular. So the question is bound to be asked.

It has been asked with particular force by Mufti Mohammed Sayeed, whose People's Democratic Party (PDP) rules Jammu & Kashmir in coalition with Congress. He has threatened to pull out of this coalition if the government does not agree to “demilitarise”, that is to withdraw troops and repeal the Armed Forces Special Powers Act, which critics say provides legal cover for the Indian army's abuses in the state.

Kashmir's 17-year insurgency has led to some 40,000 deaths by the army's count, and more than 100,000 by that of its opponents. But violence has declined sharply (see chart) and the idea of troop reduction has taken hold. General Pervez Musharraf, Pakistan's president, is no less keen on it than Kashmir's politicians.



Mr Sayeed, a savvy political veteran, presented his ultimatum first to Congress's Ghulam Nabi Azad, the chief minister. In early March he followed up with a similar missive to Manmohan Singh, India's prime minister. But Mr Singh, like Mr Azad and A.K. Anthony, the defence minister, categorically rejected the demand, insisting that troop levels would not be reduced until insurgent violence had been eradicated. Prolonged and intense negotiations in Delhi ensued. Then on March 30th Mr Singh executed a deft volte-face.

The Congress party's initial reluctance to agree to Mr Sayeed's demand was understandable. State elections are due later this year, at which the PDP will doubtless claim the credit if there is any troop reduction. And elections in Indian Kashmir are becoming fairer. The most recent, in 2002, were seen as the cleanest yet, though a separatist boycott led to a low turnout, especially in the Kashmir Valley, the territory at the heart of the dispute. Since the separatists might one day contest elections with them, Kashmir's mainstream parties are stealing some of their policies.

But if caving in to Mr Sayeed looked unappealing to Congress, bringing down the governing coalition in the state by rejecting his demand for demilitarisation may have seemed worse. And whatever the electoral calculation, there is a strong case to be made for the idea. A phased reduction of troops dovetails with other confidence-building measures in Kashmir, such as the reopening in 2005 of a bus route from Srinagar to Muzaffarabad, capital of Pakistani-controlled Kashmir. Moreover, the latest official report estimates that only between 1,000 and 1,200 militants are still operating in Indian-administered Kashmir. The state's army chief announced late last month that infiltration of militants across the “Line of Control” dividing Indian- and Pakistani-controlled parts of Kashmir had dropped to zero for the first time since the insurgency began.

Improving relations with Pakistan depends on progress over Kashmir. At a summit this week of the South Asian Association for Regional Co-operation, Pakistan's prime minister, Shaukat Aziz, said that resolving the conflict was “a must” if SAARC is to reach its potential.

For all these reasons, Mr Singh's government felt the need to show flexibility. It has therefore set up three committees: one to look into troop redeployment, another to consider repealing the Special Powers Act and a third to review the findings of the first two. Conspicuously absent are a commitment to withdrawing

troops and any timetable either for the completion of the reports or a decision. Separatists dismissed it all as meaningless. Congress may feel it has shown goodwill without having had to give anything substantial away. Yet.

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China

I'd rather be a hammer

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Than a nail household. It gets clobbered in the end

AFP

IN CHINA, people who refuse to allow their homes to be demolished by developers are called “nail households”. Most end up being chased away by the developers' thugs or forcibly removed by police. But in recent weeks determined resistance by a couple in the south-western city of Chongqing turned a struggle for private-property rights into a *cause célèbre*. They have now reached agreement with the developers. But the debate will simmer on.

On April 2nd, a bulldozer demolished the two-storey hotpot restaurant that had also once been home to Yang Wu and his wife Wu Ping. Pictures such as the one above had acquired iconic status in China. On websites and in some of the country's more daring newspapers, they symbolised rare defiance by ordinary citizens in the face of the government-orchestrated onslaught of China's relentless urban redesign.

As a condition of moving out, the couple had demanded a property in the high-rise residential and commercial complex planned for the site. The developers, they said, were offering money—and not enough. After more than two years of wrangling, an agreement was reached this week, giving the couple property and cash worth more in total than their old house. Many in China would see this as victory. Despite laws requiring fair compensation, people forced to make way for construction projects often receive less than their properties are worth.

The couple's fight caught the Chinese media's attention just as the country's legislature was debating a new law aimed at protecting private-property rights. The law was adopted on March 16th and will come into effect on October 1st. The government's handling of the case was widely portrayed as a crucial test of the new law's effectiveness. The law is vague on compensation as well as on many other issues, but officials hope it will be a reassurance to the country's fast-growing middle class.

Debate over the case has strayed beyond property-related issues. A slogan displayed by the couple on their house hinted at wider concerns. “The state respects and preserves human rights,” it said, citing a 2004 constitutional amendment ignored, in the couple's view, by government-backed developers.

The press has questioned the government's right to cite ill-defined “public interest” as an excuse for knocking down homes. Some, however, have also pointed out that at least the house was allowed to stand while the dispute continued. That, at least, was progress.

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Bangladesh

Digging in

Apr 4th 2007 | DHAKA
From The Economist print edition

An interim administration, but just how long is the interim?

Get article background

THREE months into Bangladesh's state of emergency, it seems that the generals behind it have sent the two feuding “begums”, who have dominated politics in the country of 150m, into political retirement. They have managed to discredit both Khaleda Zia of the Bangladesh Nationalist Party (BNP) and Sheikh Hasina Wajed of the Awami League by association with corrupt relatives.

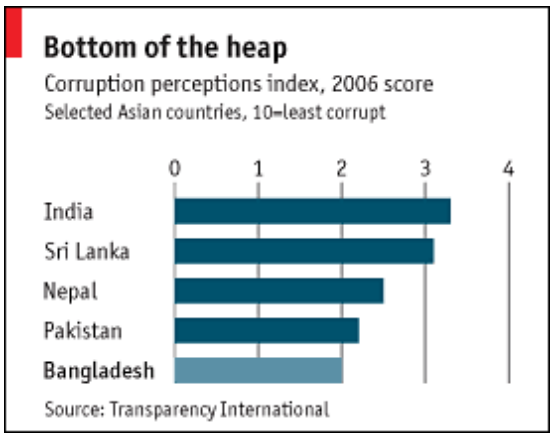
Khaleda Zia's son, Tarique Rahman, the symbol of the BNP's kleptocratic rule that ended in October, is in jail. Also behind bars is almost the entire former entourage of Sheikh Hasina. Officials say they have found hundreds of millions of dollars in foreign bank accounts. The army's threat to go after Sheikh Hasina's family, combined with a promise to bring to justice the killers of her father, Sheikh Mujib, might be enough to persuade her to extend her present stay in America or, should she come home, to stay out of politics.

Freeing Bangladesh from the rule of the two feuding begums and their money-grabbing coteries, which have alternated in power since 1991, presents an extraordinary opportunity. Sadly, however, the generals' promise to create by fiat a new, corruption-free society and steer the country towards meaningful elections looks more improbable by the day.

Having cancelled elections due on January 22nd, the regime the army installed has tightened its grip. Some 100,000 people have been arrested. Odhikar, a local human-rights monitoring group, says 50 people have died at the hands of law-enforcement agencies since January. The powers of an anti-corruption commission to arrest people, investigate and seize property have been extended. The judiciary has been handcuffed: on March 21st the right to appeal for bail was suspended. This is still, however, a popular administration enjoying the benefit of the doubt: apart from some human-rights organisations, no one seems too bothered.

The military still scoffs at the suggestion that it is running the country, and Fakhruddin Ahmed, the head of the interim government, has said his administration does “not intend to stay in power a day longer than necessary”. But members of the new election commission openly say polls are unlikely before the end of 2008.

The next fiction that will prove unsustainable is the army's claim to be the only institution untouched by corruption. Bangladesh's record in this respect is dire (see chart), providing the generals with one of their main pretexts for taking power. The army chief, General Moeen U Ahmed, who had already accused the political parties of giving Bangladesh “nothing good” in its 36-year life, this week blamed corruption for thwarting the country's full economic potential. What Bangladesh needed, he said ominously, was “its own brand of democracy”.



But the distinction General Ahmed wants to draw between corrupt politicians and honest soldiers is bogus. Senior army officers say in private that corruption is institutionalised in the armed forces, particularly in arms procurement and construction. Even before the BNP came to power in 2001, Transparency International, a corruption-monitoring group, said defence deals in Bangladesh were “notoriously corrupt”.

That same year, a competition between the political parties to recruit former army officers as election candidates saw four former army chiefs, one former head of the air force, six former generals and 16 army officers run for parliament. Because of the close ties between the army and politicians, putting either of the two begums on trial is not an option. Both could probably take the generals down with them. The “war against corruption”, it appears, will spare no one—except the army and its former political masters.

As so often when an unelected regime promises democracy, the temptation to prolong the emergency indefinitely will be hard to resist. For now, the general's mandate to “clean up” a filthy system is intact. The silence of foreign governments amounts to a tacit endorsement of another authoritarian regime in South Asia. Support for Bangladesh's, as for Pakistan's, in part reflects a fear that, under the corrupt and bickering democrats, the country might become a hub of Islamist extremism. The army has grasped this well. On March 30th it executed six Islamist militants—two weeks ahead of schedule.

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Thailand

Southern discomfort

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From The Economist print edition

An insurgency with no name and many deaths

WHO wants to be village chief? In Thailand's southern badlands the answer, these days, is often nobody. After three years of separatist violence in the ethnic-Malay Muslim-dominated region, nobody wants to be on the side of the authorities. Local-government officials are easy targets for unidentified separatist gunmen, who have helped push the death toll in the conflict since 2004 to more than 2,100. Of these, more than 400 have died since Thailand's army seized power last September and vowed to bring peace to the south.

So it is not surprising that, until a reluctant candidate had his arm twisted, nobody wanted to replace Harong Daramae as head of Poming, a sub-district in Pattani province. Local officials must perform a perilous balancing act between the separatists and the government. Before he was gunned down in a field last December, Mr Daramae, a Muslim, received anxious phone calls from friends who had heard he was dead. Eventually, fact caught up with rumour. Six days later a village chief in his area was killed. Two months earlier, it had been the turn of the former imam at the mosque. All the killers are still at large, and nobody expects the police to catch them.

Thailand's overstretched security forces are in trouble. Unless they can convince local Muslims to pass on information, they will struggle to defeat an underground rebellion that shows little interest in showing its face. But if they cannot guarantee security—a distant prospect in lawless Poming—no informant will come forward. Muslims may like what they hear from Surayud Chulanont, the army-installed prime minister. A former army commander, he has apologised for past government abuses and ordered a peace-building approach to the south's unrest. But he seems unable to reverse the tide of violence, or dispel the widespread feeling among Muslims that the Thai security forces are behind many of the killings.

Meanwhile, recent atrocities are leading more Buddhists to take up arms. Around 95% of Thailand's 64m people are Buddhists. They are starting to tire of giving peace a chance. Across the religious and ethnic divide, Muslims—even the young and educated—blame the government for all their troubles and claim that nobody knows who is behind the insurgency. That of course is nonsense. But nobody is telling.

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Pakistan

Teacher, don't leave them kids alone

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From The Economist print edition

Pakistan's madrassas may be less of a problem than its mainstream schools

THE “battle” for Pakistani minds is sometimes not a figurative one. A bloody clash erupted last month when security forces prevented pro-Taliban militants from recruiting pupils for *jihad* at a private secondary school in North-West Frontier Province (NWFP). General Pervez Musharraf, Pakistan's president, casts such incidents as part of a struggle between his “enlightened moderation” and obscurantist militants. But critics say General Musharraf is failing in one important arena. His five-year old plan to reform Pakistan's *madrassas* is “in shambles”, according to a report last week by the International Crisis Group, a research and policy outfit.

Pakistan's real educational battlefield, however, is less in its *madrassas* than in its rotten mainstream schools and universities. In the absence of a decent education, points out Javed Ashraf Qazi, the education minister, “illiterate masses become ready recruits for all sorts of unhealthy activities.” Perhaps recognising this, America has not wasted a dime on *madrassa* reform. But it has pledged $256m for mainstream education between 2002 and 2007.

Officially, 53% of Pakistanis are literate. Others say the figure is nearer 30%. Literacy, often defined as no more than the ability to write one's name, is as low as 3% among women in some rural areas. Pakistan has a rapidly ballooning population of 160m with over 85m people below the age of 19. The education system, left to atrophy for 30 years, is crippled by every possible ill: crumbling classrooms, poor teaching materials, untrained and truant teachers and endemic corruption.

It is not all grim. The government is taking education more seriously and pouring in more resources. In the province of Punjab, which has a population of 83.7m, the World Bank has ploughed $850m into educational reform. Over the past three years more than 1m children have been enrolled in Punjabi schools for the first time. The provincial government has introduced free textbooks, a $4 monthly stipend for girls, a teacher-training scheme and has cancelled token school fees. Like NWFP, Punjab has purged its textbooks of much pro-*jihad* and anti-Indian propaganda.

But the good news ends there. Poorer provinces have been unable to cash in. Baluchistan, blighted by a low-level separatist insurgency, has been able to increase spending by only 20-30%. Across Pakistan as a whole, only 52% of primary-school-age pupils attend school. Of those, nearly one-third will drop out. Only 22% of girls above the age of ten complete primary schooling, compared with 47% of boys.

Some 3,500 schools do not have a building; of those that do, 4,000 are classed as “dangerous”; 29,000 schools have no electricity; 14,000 have no drinking water; 22,000 do not have a toilet; 4,000 consist of a single classroom; and fewer than 100 secondary schools have science labs. The quality of education is still poor, and the government is far off its target of providing universal primary education by 2015.

The private sector, which accounts for 30% of primary and secondary education, fares little better. Private schools are mostly over-subscribed, poorly paid and staffed by badly trained teachers. Many “English-medium” schools, offering to bridge the social divide between the anglophone elite and the “masses”, are a swindle. Pupils are instructed mainly in Urdu. Nevertheless, educationalists are concerned that the divide between schools is reinforcing the social chasm.

To be fair, the government is seeking to combat these woes. It has pledged to boost spending on education from 2.5% of GDP to 4%. But similar promises were made last year. Already some 40% of the education budget is returned to the exchequer because of a lack of “capacity”, or the failings of a cumbersome bureaucracy.

Pakistan's higher education has received the most obvious boost of energy and money. A Higher Education Commission was created in 2002 and is run by a distinguished hyperactive organic chemist, Atta-ur-Rahman. With an annual budget of $449m, Mr Rahman has sent hundreds of students abroad on

scholarships, embarked on a university-building spree, published lists in newspapers of dubious degree-givers, hunted down plagiarists and introduced performance-related incentives to improve teaching quality and research. Respected academics, such as Abdul Hameed Nayyar, believe that the haste of some of the reforms has “actually degraded higher education”. Even if that is unfair, the present flurry of educational enthusiasm may not make a lasting difference. Its chances remain hostage to Pakistan's chronic political instability.

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Somalia

A failed state that threatens the region

Apr 4th 2007 | NAIROBI
From The Economist print edition

No one, it seems, can stop Somalia's capital from imploding again

AFP

Get article background

THE surgeons in the Medina hospital in Mogadishu are used to dressing gunshot wounds, but they had seen nothing as intense as last week's fighting. Islamist insurgents exchanged small-arms and artillery fire with Ethiopian and government troops, killing up to 400 people, most of them civilians. Casualties piled up in the hospital's corridors and corpses rotted in the sandy streets beyond, unclaimed until a lull in the fighting allowed for shallow graves to be dug where people fell.

Somalia's capital, it seems, is in danger of slipping back into a state of bloody anarchy. About 47,000 people have fled the city during the fighting and more have been queuing up to leave, by minibus, donkey or on foot. And all this comes only three months after the Ethiopian-backed government had supposedly claimed back control of the city from the Islamist militias that they said they had defeated in a swift campaign last December.

Now the picture looks very different. Remnants of the Islamist fighters have regrouped. Together with disaffected fighters from the powerful Hawiye clan, which is used to controlling much of the capital, they threaten a proper insurgency.

Furthermore, as many had predicted, the continuing presence of Ethiopian soldiers in the capital is exacerbating the conflict. Indeed, far from leaving, as they had started to do, the Ethiopians have called for reinforcements. Not that this is entirely their fault. The African Union (AU) had promised to fly in 8,000 peacekeeping troops to replace the Ethiopians to enforce a fragile ceasefire, but only 1,200 or so Ugandans have actually arrived in Mogadishu, where they have been restricted to protecting the airport and other installations. Nigeria and others have promised troops but not yet sent them.

That has left the Ethiopians to do most of the fighting on behalf of the government, with covert assistance from America. Ethiopian soldiers had done a mostly impressive job of policing Mogadishu with little incident for three months. But they are seen as invaders by most Somalis and will remain unpopular, and thus targets, whatever they do. The same goes for the Americans. They have backed the government and the Ethiopians as a way of rooting out suspected al-Qaeda men who had operated on the fringes of the Union of Islamic Courts, the Somali Islamists whose brief reign had brought a modicum of order until they were pushed out.

A further complication is the Eritrean backing of the ousted Islamist militias. Eritrea has supplied arms to them and might be doing so again. Yoweri Museveni, Uganda's president, visited Eritrea this week to ask it not to get involved, but was rebuffed. Eritrea sees the mayhem in Somalia as a chance to make life as hard as possible for its Ethiopian neighbour and mortal enemy. Eritrea says it opposes “any foreign involvement” in Somalia—except, of course, its own.

The international contact group on Somalia, a body set up to try to resolve the Somali crisis, including representatives from America and the European Union, held talks in Egypt this week but produced little new. Somalia's government was urged again to reach out to moderate Islamists, but nobody knows what to do about the remaining Islamist fighters, who seem intent on *jihad*. Some diplomats in the region think it inevitable that, despairing of any solution, the outside world will just cast Somalia adrift. Many in Mogadishu think that their city already has been.

What more could be done? A properly enforced arms embargo may have a calming effect. But the immediate challenge is to prevent Mogadishu sliding back into a war economy, where men with guns profit from instability. The signs are not good. Food prices are up by 50%. Extortion at gunpoint is back.

More importantly, deals will have to be done with the Hawiye clan elders to try to detach them from the Islamist fighters, thus reducing the opposition to the government. The Union of Islamic Courts made themselves popular with people in Mogadishu last year by imposing enough order to allow people to get on with their normal business again. Now, for instance, the Hawiye traders complain of a threefold increase in duty applied to staple goods arriving at Mogadishu's port. Settling issues like this could make the Hawiye leaders, and the gunmen they control, readier to negotiate.

If that were to happen, there may be a small chance of an accommodation between the Hawiye and the government. The alternative is dire. It took 15 years and 14 attempts to deliver Somalia the relative peace that the country enjoyed in the first three months of this year. If the country fails again, it could stay failed for a very long time.

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Zimbabwe

The hogwash of quiet diplomacy

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A bad week for those looking forward to the end of President Robert Mugabe

EXPECTATIONS had been raised ahead of a summit of southern African leaders on March 29th that Robert Mugabe would finally be told, politely but firmly, that it was time to go. The meeting had been called mainly to discuss Zimbabwe's dreadful economy and the arrests and beating of opposition leaders. Surely the president would not get off this time?

Astonishingly, Mr Mugabe got more bouquets than brickbats. The assembled heads of state called for sanctions to be lifted to take the pressure off their comrade, and declared the grubby presidential election of 2002 free and fair. With this sort of endorsement ringing in his ears, Mr Mugabe smartly returned to what he knows best: intimidating his opponents. He called the beating of the opposition leader, Morgan Tsvangirai, not only “deserved” but promised more of the same. To cap his perfect week, Zimbabwe's ruling ZANU-PF party said Mr Mugabe would be its presidential candidate in next year's election.

Even by the standards of the South African Development Community's feeble diplomacy, it was an extraordinary performance. The SADC has always argued that America's and Britain's more confrontational approach is counter-productive, but this was taking quiet diplomacy to the other extreme. For those looking for a glimmer of support from their fellow Africans in their struggle to survive Mr Mugabe's regime, it was a huge disappointment.

The only slight bother for Mr Mugabe was a decision to ask South Africa's president, Thabo Mbeki, to mediate between the government and the opposition. In private, neighbouring countries are growing increasingly frustrated and there has been movement behind the scenes. Ahead of the summit, both factions of the opposition Movement for Democratic Change, which split in 2005, met South African officials and presented a joint plan to solve the crisis. At the same time, South Africa's deputy president, Phumzile Mlambo-Ngcuka, met her Zimbabwean counterpart, Joyce Mujuru, and her husband, a powerful ZANU-PF stalwart (and former head of the army) who is said to harbour ambitions to succeed Mr Mugabe. Most of those ready for a change within the ruling party accept that any way out of the crisis requires the opposition's co-operation.

In truth, though, Mr Mbeki will probably struggle to make much headway with Mr Mugabe, who despises the South African president. Pressure on him may be stronger from inside the country. Trade unions are organising another stay-away this week, and the opposition, though weak and divided, is nonetheless showing signs of regrouping. And despite the apparent endorsement last week by ZANU-PF of his candidacy, Mr Mugabe's standing in his own party has been weakened. The endorsement came without much of a vote, and the party's constitution automatically anoints its president to run for the country's top job.

Still, the SADC's official show of support for Mr Mugabe has boosted his chances of survival, at any rate in the short run. With Africa's spineless politicians choosing to let Mr Mugabe carry on mistreating his own people, it was left to the country's Catholic church to speak out on their behalf. On April 1st, in an unprecedented pastoral letter, it denounced Zimbabwe's “racist, corrupt and lawless” government, comparing it directly to the regime of white settlers that had gone before. “This so-called quiet diplomacy is hogwash,” said the Archbishop of Bulawayo. “You can't persuade Mugabe to leave. He has to be forced out.” But how?

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Syria

Has he got away with it?

Apr 4th 2007 | DAMASCUS
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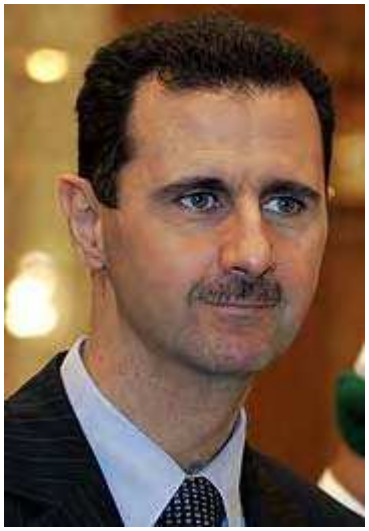
President Bashar Assad seems to have won a new lease on political life

FOR a country painted by many as an international pariah, Syria is looking remarkably spruce. New cars jam the streets of its ancient capital, Damascus, whose once-dowdy shop windows now bulge with fancy goods, and where the price of prime property has doubled in the past two years. The economy, which grew lamely at less than 2% a year from 1999-2004, last year swelled by 5%. Energy consumption, a clearer indicator of economic activity, surged by 16 %, says a minister.

Syria's leaders, long shunned by fellow Arabs as well as Westerners, seem suddenly back in fashion, too. President Bashar Assad's relations with the governments of neighbouring Turkey and Iraq have warmed. He has strengthened Syria's long-standing alliance with Iran, yet seems also to have reconciled with the region's rival heavyweight, Saudi Arabia. King Abdullah greeted him in person last week at the airport of Riyadh, the Saudi capital, on his arrival for an Arab summit whose next venue is to be Syria. Javier Solana, the European Union's foreign-affairs head, had soothing words for Mr Assad on a recent visit. This week, defying President Bush's ban on high-level contacts, two American congressional delegations, one led by Nancy Pelosi, the top-ranking Democrat, took the road to Damascus.

Reuters



Something to smirk about

Mr Assad may even get back into the swim of Israeli-Palestinian diplomacy, from which he has been largely excluded, thanks in part to his backing of Hamas's exiled leader, Khaled Meshal, whose haven is Damascus. The resuscitated Arab League peace plan of 2002 includes a demand that Syria be given back the Golan Heights in return for peace with Israel. And there is talk within the newly-formed Arab Quartet of moderate states (Egypt, Jordan, Saudi Arabia and the United Arab Emirates) that Syria should be included, partly to detach it from its ally, Iran.

Not so long ago, things looked very different. America's invasion of Iraq in 2003 added, alongside Israel's, another big, unfriendly army next door. Citing Syrian meddling in Iraq and Lebanon and accusing it of sponsoring terrorism here and there, the Americans imposed sanctions, withdrew their ambassador, threatened “hot pursuit” of alleged terrorists who sought sanctuary on Syrian soil, and began funding Syria's exiled opposition. The EU declined to ratify a free-trade agreement reached in 2004, leaving Syria the only Mediterranean state without privileged access to European markets.

Lebanon, long a reliable fief, erupted in a popular anti-Syrian revolt after the killing of its five-times prime minister, Rafik Hariri, in February 2005, forcing Syrian troops into a humiliating retreat. Worse yet, Lebanon's newly elected government lobbied the UN to investigate and try Mr Hariri's murderers; accumulating evidence pointed to Syrian complicity.

Things were not much better at home. Shrinking oil reserves, said experts, would drain Syria's main source of revenue. The loss of Iraq as a lucrative trade partner, and of relatively rich Lebanon as a sponge for Syrian unemployment, would speed a slide into bankruptcy. Mr Assad, a political novice who succeeded his feared but respected father on his death in 2000, looked ever weaker, as promised reforms failed to materialise, defectors deserted the ruling Baath party and a rising opposition chorus spoke of its impending overthrow.

The turnaround is not quite complete. Unemployment, corruption and poverty still hamper the economy. Mr Assad is still mistrusted by many of his neighbours, loathed by many politically-conscious Syrians and still risks being fingered for Mr Hariri's murder. But on a range of issues, his patience, stubbornness and absolute intolerance of dissent may be paying off.

He owes his new lease on political life to the incompetence or fatigue of his enemies, to clever diplomatic footwork and to lucky circumstances. Last year's war in Lebanon, for instance, looked as if it would seal the doom of Mr Assad's main ally there, Hizbullah. Instead, the Shia militia emerged battered but politically strengthened. Mr Assad gained from popular Arab perceptions that he had justly backed the right horse, while his Lebanese allies were emboldened to try to corner the pro-Western government in Beirut into dropping its demand for an international tribunal to bring Mr Hariri's killers to book.

Opposition to the American-led invasion of Iraq has brought dividends too. Partly due to Syria's encouragement of the Sunni insurgency at the outset (since tempered by controls on the passage of jihadists), America has burned its fingers badly and lost its enthusiasm to foment regime change elsewhere. Though Iraq's sectarian turmoil could spill over into multi-sectarian Syria, it also carries opportunities for Mr Assad.

Appalled by the mess next door, few Syrians now doubt that their own secular dictatorship is preferable to the anarchy of supposedly democratic Iraq. Yet Syria's belated recognition of Iraq's government, skilfully portrayed as a graceful bow to American pressure, has brought big rewards. Syria is fast regaining its traditional role as the gateway to rich Mesopotamia. Iraq bought some 400,000 tonnes of Syrian farm produce last year. Near Qamishli, in the north-east, a queue of Syrian lorries heading for Iraq stretches 30km (19 miles). Even the influx of 1m Iraqi refugees brings some benefits: a boom in Syrian property, plus a surge in consumer demand.

The potential gains from Iraq are even greater. Large natural-gas fields lie just across the border in Iraq: the easiest export route for Iraqi oil is through Syrian ports. Iraqi officials already speak of enlarging existing pipelines, while Syria is expanding its refining capacity in anticipation. Meanwhile, even as high world prices have maintained Syria's income despite shrinking energy exports, new discoveries of gas and oil—most recently, by British-based Gulfsands Petroleum—look set to slow the predicted decline in reserves.

But perhaps the greatest satisfaction for Mr Assad is the likelihood of his outlasting his enemies. France's President Jacques Chirac, whose pursuit of justice over the killing of Hariri, his close friend, took on the tone of a personal vendetta, will soon be gone. So too will Tony Blair. And Mr Assad could well be in power after George Bush has bowed out too.

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Iraq and the Kurds

The other Jerusalem

Apr 4th 2007 | KIRKUK AND BAGHDAD
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Will the Kurds get their way?

AS YOU drive through the city of Kirkuk, with its drab buildings, dusty and rubbish-strewn streets and general decrepitude, you wonder why it stirs such anguish at the heart of Iraq's national-unity government in Baghdad. One big answer is the huge, sprawling oilfields on the city's western fringe.

But for Kirkuk's Kurds and their brethren in the autonomous Kurdish region to the north, it is about far more than just oil. Kirkuk is a symbol, they say, of everything Kurdish: their people, their land, their history. They say they can be reconciled with their Arab compatriots, both Sunni and Shia, only if Saddam Hussein's "Arabisation" campaign—the settlement of tens of thousands of Arabs in Kirkuk during his three decades in power—is reversed.

Iraq's president, Jalal Talabani, a Kurd from Kirkuk, called the city "our Jerusalem". But while the status of the real Jerusalem looks set to remain disputed for many years, most Kurds now think that Kirkuk's fate will be satisfactorily sealed this year. Most Arabs still disagree. But the tide may be flowing the Kurds' way.

Last week, Kurdish leaders threatened to quit the government in Baghdad, where they are allied to the main Shia block, unless the cabinet of Nuri al-Maliki stopped dragging its feet over Kirkuk. A deal was then struck: thousands of Arabs who had settled in Kirkuk would be compensated with land and money if they went back to their original homes, mainly in the south.

The justice minister, Hashem al-Shibli, said that those who left would be paid about $15,000 and given land in their former home towns. Mr Shibli, who has been chairing a committee looking into the issue, said that Kirkuk's authorities would soon begin giving out forms to Arab families to assess who was eligible for resettlement, which would be voluntary.

The minister then surprised everyone by resigning, citing differences with the government and his own political block, led by a former prime minister, Iyad Allawi, partly over Kirkuk. The controversial Article 140 of Iraq's new constitution provides for several things: the return of Arab "settlers" and a redrawing of the boundaries of Kirkuk province, surrounding the city; a census; and then, by November 15th this year, a referendum on whether Kirkuk should join the present Kurdistan federal region. Kurds calculate

that, once enough Arabs have left, the vote will go their way. One Arab member of parliament says that 12,600 families, which means around 90,000 people, have already agreed to go.

The referendum's exact terms have yet to be drafted. Among other things, the Kurds want to adjust the borders of Kirkuk province to bring back four Kurdish-populated towns (Chamchamal, Kalar, Tuz Kermatu and Kifri) which Saddam had put into other provinces to shift Kirkuk's demographic balance against the Kurds. They also want the Kurdish region to include a string of mostly Kurdish towns, in a loop running from Sinjar, west of (mainly Arab) Mosul, through Makhmur, south-west of Arbil, to Mandali in the south-east near the Iranian border. The Kurds' geographic borders, they say, should roughly follow the line of the Hamrin mountains.

Many of Kirkuk's Arabs and Turkomen fiercely object to all such ideas. The Turkomen say they are Kirkuk's original rulers, while most Arabs say Kirkuk is Iraqi and should stay so. Sunni Arab nationalists elsewhere in Iraq, plus followers of the populist Shia cleric, Muqtada al-Sadr, have denounced the plan to push Kirkuk's Arab families to move south. Few Arabs or Turkomen trust the city's Kurdish-dominated authorities to treat them fairly. Turkey's government, facing elections this year, rejects the Kurds' claims to Kirkuk and says it may have to intervene militarily if the city's Turkomen are threatened. The Americans say Kirkuk is an internal Iraqi issue and are urging the Turks to stay out.

So there are fears that tensions may yet boil over in a city where Kurds, Arabs, Turkomen and Christians edgily co-exist. This week a massive bomb hit a police station in a mainly Kurdish district, killing 15 people, including children at a nearby school. Such attacks, presumably by Sunni insurgents, may increase, in the hope that the Kurds delay the referendum. But as things stand, they are determined to hold it.

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Libya

Still bizarre, in a bad way

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Libya's ruler is a muddle of contradictions

IN A recent gesture fitting for an oil-rich country that proclaims itself the only true people's democracy, the Libyan government has begun compensating 5,000 families deemed to have received less than their fair share of revenues. Officials handed the first cheque, for a handsome $23,000, to the head of a nine-person household. His name: Muammar Qaddafi. Profession: Brother Leader of the Great Socialist Arab People's Jamahiriya ("state of the masses") for the past 38 years.

AP

The fun of reading his own words

Libyans have had a long time to grow used to such ironies, but their credulity has lately been stretched anew. With one hand, Mr Qaddafi is opening Libya to the world, inviting foreign investment and seeking advice on how to reform its moribund, oil-dependent economy. With another, he slaps iron-fisted controls on dissent and keeps cronies and clansmen in key positions of power, ensuring that any reform of the lumbering bureaucracy will be slow, erratic and grudging.

In recent speeches, Mr Qaddafi has said Libya cannot resist the tide of globalisation, and that there can be no going back to the "era of hostility and confrontation" when Western powers ostracised him for sponsoring terrorism. There will come a day, he promises, when his people no longer have need of their leader. Yet he has also complained that America and Britain have cheated Libya, by failing to reward it adequately for its decisions to scrap its nuclear-weapons programmes and to accept liability for the airliner bombing over Lockerbie in 1988. He has warned that foreigners seek to dominate Libya and steal its wealth, to "brainwash" Libyan émigrés and send them back as enemy agents. While declaring his ideology of "participatory democracy" a model for the world, he has described the late Iraqi dictator, Saddam Hussein, as a martyr and saint, "better than all living Arab rulers".

Such contradictory words might be dismissed as mere rhetoric if they were not reflected by action on the ground. Libya has indeed taken measures to unshackle its economy. New laws let foreign investors take controlling shares in local companies and have sharply dropped minimum capital requirements. A state bank and both state-owned mobile-phone companies are soon up for sale to private bidders. On the advice of foreign consultants, the country has just set up an economic development board to spearhead reform.

Eyeing Libya's huge, largely untapped energy reserves, foreign oil companies are scrambling for concessions. Competition is so fierce that in recent bidding new entrants from India, China and Russia have slashed demands for production-sharing agreements to below 10%, down from the 20% range that established oil majors are more used to. The rush is understandable. A foreign prospector recently announced a crude find it reckoned at close to 500m barrels, worth around $25 billion.

Swollen by high oil prices, Libya's foreign-exchange reserves are estimated to have reached $56 billion: a big sum for a country with some 5.6m people. Yet to date, ordinary Libyans have seen little of that windfall. Government wages have not changed, in real terms, since 1981, when they were capped at a paltry $230 a month. A range of subsidies, plus free schooling and health care, prop up living standards. But they also reinforce dependency on the state and strengthen the power of the bureaucrats who decide who gets free housing or cars or other goods.

There is no sign at all that this sort of arbitrary power, theoretically exercised by “people's committees” but in practice often wielded by security services under the control of Mr Qaddafi's tribe, will be trimmed any time soon. The American State Department's latest human-rights report reads like a menu for draconian rule. It says that in 2006 “torture, arbitrary arrest and incommunicado detention remained problems. The government restricted civil liberties and freedoms of speech, press, assembly, and association.” Other problems included “poor prison conditions; impunity for government officials; denial of fair public trial; infringement of privacy rights; restrictions of freedom of religion; corruption and lack of transparency; societal discrimination against women, ethnic minorities, and foreign workers; and restriction of labour rights.”

By gestures such as handing cash to the supposed poor, Mr Qaddafi's regime hints that it knows many of its citizens are less than content. One of the leader's sons, Seif al-Islam, the most prominent reformist in the country, recently declared that state wages may be boosted by as much as 275%. That would certainly be a relief to Libya's cash-strapped wage earners. But it will take more than handouts to untangle what one of Libya's freshly hired and highly-paid foreign consultants describes as one of the biggest messes he has ever seen.

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Russia's Muslims

A benign growth

Apr 4th 2007 | KAZAN AND MOSCOW
From The Economist print edition

AP

Russia's fastest-growing religious group is its Muslims. But they are not much like their counterparts in other countries

MUSLIMS in Russia—or at least the politically active among them—are rejoicing. On March 30th a human-rights case that had become a touchstone of Muslim concerns was dramatically resolved. The story concerned a Russian who had adopted Islam, prefixing his Slavic name of Anton Stepanenko with a Muslim one, Abdullah. Thriving in his adopted faith, he became an imam in the south Russian town of Pyatigorsk. But in January 2006, say friends, he was arrested on sham charges of kidnapping and theft.

Senior Muslims across Russia used their access to the pro-government press to make a public appeal to President Vladimir Putin for his release. Suddenly, just as Muslims were about to celebrate the Prophet's birthday, the imam's fortunes changed: the charges against him were reduced and he was freed. His release came just in time for this “exemplary, heroic figure for all the nation's Muslims”, as one report called him, to go to the mosque and lead his flock in Friday prayers.

The imam's travails, and ultimate release, exemplify two features of Muslim life in Russia. One is the state's pragmatic combination of authoritarianism and flexibility towards minorities. Another is the emergence within Russia of an active but ultimately loyal Muslim community. Muslims want a fair deal and growing influence to match their rising numbers.

Whatever the Stepanenko case was about, it had nothing to do with the bloody war for the independence of Chechnya, which most people outside Russia—including many Muslims—see as the biggest quarrel between the Russian state and Islam. Not that Chechnya is easy to sweep aside. For the world's Muslims, the troubled region is usually listed with Palestine, Kashmir and Bosnia as one of the places in which Islam has been under attack. The repression of the Chechens, as well as sputtering violence in the entire neighbourhood, is the biggest albatross round Mr Putin's neck in his efforts to cultivate Muslim countries.

Yet in most of Russia a quite different contest over the future of Islam is going on. All of its participants insist that they have no desire to live under a ruler other than Mr Putin. But they differ on how, and how far, to hold him to a promise he first made in Malaysia in 2003, when he declared that Russia was a Muslim power, which hoped to play a role in global Muslim affairs.

A Muslim power? It sounds bizarre. But Russia has more Muslims than any other European state (bar Turkey); and the Muslim share of the population is rising fast. The 2002 census found that Russia's Muslims numbered 14.5m, 10% of its total of 145m. In 2005 the foreign minister, Sergei Lavrov, put the number of Muslims at 20m. Ravil Gaynutdin, head of Russia's Council of Muftis, talks of 23m, including Azeri and Central Asian migrants.

Moreover, the Muslim population of Russia is rising even as the country's overall population falls. Many Muslim communities long predate Russian rule. Shamil Alyautdinov, the imam of the newest and most

dynamic of Moscow's four mosques, insists that the very word “minority” should not apply to a faith “which emerged on Russia's territory far earlier than Christianity did”.

Aside from the Caucasus, there are now two concentrations of Muslims in Russia. One is in Moscow, swollen by labour migration, where they may number 2m. The other is in the faith's old bastions: Bashkortostan and, above all, Tatarstan (see map), where a revival of the faith has been overseen successfully by a wily regional president, Mintimer Shaimiev. In several parts of the Caucasus, old-style compacts between local rulers and “tame” clerics have alienated young people; but in Tatarstan they still seem to work quite well.

Tatarstan has its share of Islamists, some of whom face severe repression. Seven men sent back to Russia from Guantánamo Bay all suffered harassment or torture, says Human Rights Watch, a lobby group. Two were later convicted in dubious circumstances of blowing up a gas pipeline in Tatarstan. Especially in the early 1990s, Russia's new freedoms—to go on pilgrimage or to open mosques—imported new influences, from Saudi Arabia, Iran and Turkey. In Tatarstan much of the alleged radicalism was linked to a foreign-financed religious school, now closed. Last week six people were convicted of belonging to Hizb ut-Tahrir, a non-violent Islamist movement to restore the caliphate that is banned in Russia (as is the international Muslim Brotherhood).

But in general Islam's resurgence in Tatarstan's capital, Kazan, has been peaceful. For the first time since Ivan the Terrible conquered the place in 1552, the city's Kremlin houses a mosque, its minarets vying with nearby Orthodox Christian onion domes. Ramil Yunusov, its Saudi-trained imam, gets on fine with the local Orthodox clergy. Just 25 years ago, says Gusman Iskhakov, the mufti who heads the Muslim Spiritual Board of Tatarstan, the region had some 20 mosques. Now there are around 1,300. In Russia, says the mufti, things are better for Muslims than in many Arab countries. Muslim prayer rooms are to be found in Kazan State University, where Tolstoy and Lenin studied. Even as he grumbles about the harassment that an Islamic beard can incur, one foreign Muslim notes the small but growing number of local girls and women wearing headscarves. Tatarstan, he avers, is the last hope for Muslims in the former Soviet Union.

Rafael Khakimov, an adviser to Mr Shaimiev, uses the term “Euro-Islam” to describe the faith that has evolved in what was for long the world's northernmost Muslim outpost. Wherever he turns, Mr Shaimiev likes to present a benign image. Accompanying Mr Putin round the Middle East, the Tatar leader shows Russia's pious Muslim face, a tactic that underpins the Kremlin's Middle East diplomacy. In February the Saudis gave Mr Shaimiev an award for services to the faith. But when they are talking to west Europeans, the Tatar authorities like to present themselves as more open-minded than most other regions of Russia.

Many people in Arab countries, says Mr Shaimiev, have never lived on equal terms with other cultures, and their teaching doesn't suit the needs of the Tatars, who have. His government has opened its own religious schools and universities, to propagate its preferred form of Islam.

Among the politically active Muslims of Moscow who lobbied for Imam Stepanenko, the mood is different. For one thing, there is a row between two contestants for official favour: the cautious Mr Gaynutdin, and Talgat Tadjuddin, a feisty chief mufti who in 2003 proclaimed a *jihad* against America. But more significant than these two old-timers is a flashier movement based on Muslim entrepreneurs, journalists and websites such as www.islam.ru. Ansar, a publishing house linked to the site, turns out Russian translations of Islamic thinkers along with catchier titles such as “Love and Sex in Islam”.

Since no political force in Russia has much hope if it stands in open opposition to Mr Putin, these Muscovite Muslims tend to flex their muscles by being (even) more critical of the West than the Russian norm. Shamil Sultanov, a Muslim legislator who is close to the new movement, praises Mr Putin for “standing up to America” and its nefarious plans. Such talk meshes easily with a strand of Russian nationalism that looks to Islam as an anti-Western ally. And the easy fit between Russian-style political Islam and ordinary Slavic pride may be one reason why the Kremlin tolerates it.

Terms like “Euro-Islam”, says Rinat Mukhametov, a Muslim journalist, reflect a patronising Western Orientalism. For an up-and-coming advocate of Islam in Moscow, nothing could be worse.

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Ukraine's messy politics

Tragedy and farce

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From The Economist print edition

Ukraine's president dissolves parliament. Maybe

SIT-INS, blockades and fisticuffs are routine distractions in the Rada, Ukraine's parliament. But this week's chaos was unusual even by Ukrainian standards. After a big demonstration last weekend urged him on, President Viktor Yushchenko signed a decree on April 2nd to dissolve parliament and call a fresh election for May 27th. In the Rada, the ruling coalition promptly denounced the president and refused to budge. Each side now accuses the other of usurping power.

Mr Yushchenko's immediate worry was a run of defections from his party, Our Ukraine, and the one led by Yulia Tymoshenko, his ally during the “orange revolution” of 2004. Ms Tymoshenko later became his prime minister, until her alliance with the president drowned in a mire of corruption allegations in 2005. The government is now led by Viktor Yanukovich, whom Mr Yushchenko defeated in the presidential race that sparked the revolution, but who became prime minister (again) last August. The methods used to swell the ranks of his parliamentary coalition are widely rumoured to include bribery and blackmail.

The dodgy recruitment drive is the latest phase of a campaign to emasculate Mr Yushchenko, which began at the start of the unlikely cohabitation of the two Viktors. A constitutional reform agreed on during the orange revolution transferred some of the president's functions to parliament. Another law passed in January, with the help of the opportunistic Ms Tymoshenko, weakened Mr Yushchenko further. His efforts to nominate a foreign minister were repeatedly frustrated, as was his foreign policy itself.

The coalition's leaders are now openly bent on amassing a majority big enough to override the presidential veto and strip Mr Yushchenko of his residual powers. It sounds like the sort of constitutional fine-tuning to be expected in a young democracy. In Ukraine, alas, disputes that may seem like issues of principle are often disguised struggles for wealth. Politicians' attitudes to any given office depend on their prospects of occupying it. Beyond the Rada, the country is worryingly divided between Yanukovich supporters in the east and south, and those mostly in Kiev and the west who want a more enlightened government.

Many in this second camp, who have despaired of Mr Yushchenko's indecisiveness, were gleeful over the dissolution. But there are two reasons for caution. One is that, if the election goes ahead, it may produce a parliament that is just as fractious and corrupt as the existing one, which took almost six months after the previous election just to produce a government. Mr Yanukovich's Party of the Regions could even emerge stronger. The country may thus be fated to endure yet more political horsetrading and backstabbing—unless and until the entire ruling group of venal politicians is replaced.

The other trouble is that there may not be an election at all. The legal basis for the president's dissolution is questionable, and Mr Yanukovich's lot have referred it to the constitutional court—though the chances of a timely ruling that is not tainted by threats and bribery are remote. Some in Moscow note the similarities to the Russian stand-off of 1993, which ended with Boris Yeltsin's tanks shelling Russia's parliament. Ukraine's defence minister says the army is loyal to the president; the police answer to the government.

Meanwhile, anti-dissolution tent camps have sprung up in Kiev. For outside observers, the tents that housed the orange revolutionaries became symbols of peaceful democratic protest. For Ukraine's politicians, they have become just another way of getting what you want.

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Spain

Media wars

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The centre-right opposition takes on the left-leaning media

MEDIA barons make tricky foes. They often have strong personalities and stronger opinions. Some have sharp tongues. Woe betide any politicians who get on the wrong side of them.

Step forward Spain's People's Party (PP), the conservative opposition that is harrying José Luis Rodríguez Zapatero, the Socialist prime minister, over his attempts to make peace with the Basque terrorist group, ETA. Its foe is Jesús de Polanco, boss of Grupo PRISA, Spain's biggest media group, which owns the left-leaning daily, *El País*, and a raft of radio and television stations.

Mr Polanco used his latest shareholders' meeting to give the PP a roasting, calling it “frightening” and accusing it of being ready to do “absolutely anything” to regain power. Some people in Spain, he added, “wanted to go back to the civil war”. What the country needed instead was “a modern, secular right-wing party”: by implication, not today's PP.

The PP's reaction was one of self-righteous indignation. Mr Polanco, it claimed, had insulted the party by portraying it as “anti-democratic”. Party members were instructed to boycott PRISA: no newspaper interviews, no radio appearances, no television debates. Mr Polanco must publicly repent or his newspapers and broadcasters would never see a PP politician again. Shareholders and advertisers, said the party, should take note.

Yet Mr Polanco, who prides himself on his straight talking, is unlikely to apologise for what he calls his “personal opinion”. Spanish politicians of all colours, he said, just cannot take criticism. Even the Socialists have been complaining about recent *El País* digs.

The stand-off continues. It is a silly impasse, further proof of the overheated and suffocating political and media atmosphere in Madrid. Some Spaniards have started to mutter about the danger of a return to what was once known as the “two Spains”: the bitterly opposed factions that came to blows in the civil war in the 1930s.

It may turn out to be a tempest in a news kiosk. The PP's chances of regaining power will be smaller if it boycotts *El País* or Cadena SER, Spain's biggest radio network. PRISA media outlets, likewise, need PP voices for balance. And not all PP people are toeing the party line. Party stalwarts are already accusing Madrid's mayor, Alberto Ruiz-Gallardón, a moderate, of sucking up to PRISA. Could he be the “modern” right-winger Mr Polanco would like to see leading the party?

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Poland and its past

Heavy vetting

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The cure for ex-communist sleaze in Poland may be worse than the disease

SLEAZE was endemic among the ex-communists who ran Poland until 2005, say the moral zealots now in charge. They have backing from a surprising source: Jozef Oleksy, an ex-communist who was, in the 1990s, prime minister, interior minister and parliamentary speaker. A leaked recording of his boozy three-hour lunch with one of Poland's richest businessmen, Aleksander Gudzowaty, contains detailed allegations about top ex-communists' financial shenanigans.

All those mentioned deny everything. Aleksander Kwasniewski, president between 1995 and 2005 and still the left's most popular politician, calls Mr Oleksy an “utter cretin” and “traitor”. Mr Oleksy has grovelled in vain to his former colleagues, complaining that the tapes were doctored in the hope of sowing dissension on the left and of scuppering Mr Kwasniewski's return to domestic politics.

Recorded by Mr Gudzowaty's security staff, the tapes seem to have reached the media via the justice ministry and the security services. Mr Gudzowaty, Poland's fifth-richest man, has not explained how they got out. Some think he is currying favour with the powers-that-be: Law and Justice, the centre-right party founded by Lech Kaczynski (president) and his twin brother Jaroslaw (prime minister).

The Kaczynskis loathe this sort of thing. They like to stand above all for clean government. Their own probity is unquestioned. But their record is tainted, not least by the antics of two coalition allies. One of these is a bunch of farmers with dodgy business ties; the other is a bunch of homophobes who flirt with anti-Semitism.

Worse, the government has created a paranoid atmosphere, in which secret material is close to becoming a political currency. Government critics complain of being bugged: hard to prove, but a fear rarely expressed since the collapse of communism. The justice ministry seems heavy-handed and too fond of publicity. Some say it is being misused for political ends.

The Kaczynskis want to drive the old regime's cronies out of their powerful jobs. But they have often brought in their own chums, rather than apolitical experts. In a tussle over the sale of Poland's largest insurer, they replaced the firm's boss with a candidate who lacks the usual qualifications. The head of the country's largest oil company has been replaced by an inexperienced friend of the president's.

The biggest row is about the government's “lustration” law, which beefs up the vetting of anybody who ever co-operated with the communist-era secret services. The aim is to uproot the *uklad*, a supposed network of communist-era spies and their allies in business and the public services that the Kaczynskis blame for all of Poland's wrong turnings since 1989.

Screening public figures for connections to the old regime is common in eastern Europe, but the new law has unparalleled scope. Leading academics and journalists have threatened civil disobedience. The institute that looks after the secret-service archives is concerned that it will be unable to certify the purity of as many as 700,000 people within the time limit stipulated by the law.

Critics say that screening laws, however well-meant, tend to hit collaborators—perhaps coerced at the time and remorseful now—more than perpetrators. Heavy vetting is a cumbersome way of dealing with the *uklad*. A better one would be to make the economy more open, so that connections ceased to matter. Jan Winiecki, a professor and critic of communist economics, calls the law “unacceptable on both moral and legal grounds” and says it “puts its authors beyond the pale of Western civilisation”. The final version proposed by the president is vague, lacking a clear definition of collaboration.

If the publication of the tapes was a bid to destroy the ex-communists' party, it has backfired. Wojciech Olejniczak, the party's 32-year-old leader, has strengthened his position against the old guard after Mr Oleksy's remarks. Polls show that Mr Kwasniewski remains popular. The Kaczynskis are creating

monstrous difficulties for small fry. But they are not catching big fish, such as the tycoons who have prospered so mysteriously in recent years.

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France's presidential race

The banlieue effect

Apr 4th 2007 | SARTROUVILLE
From The Economist print edition

It is not clear who is winning and who is losing on law and order

Get article background

ON THE RER line from Paris that serves the *banlieue* of Sartrouville, an advertising hoarding shows the three leading candidates for the French presidential election: the Socialists' Ségolène Royal, the centre-right's Nicolas Sarkozy and the centrist François Bayrou. The picture of Mr Sarkozy has been sprayed out and a graffiti caption added: “dictator”.

Mr Sarkozy inspires dread or admiration, but seldom indifference. In the *banlieues*, with their young, jobless ethnic minorities, these feelings are intensified. To some, Mr Sarkozy is a straight talker, ready to take on gangs, welfare fraudsters and illegal immigrants. To others, he is an authoritarian who favours heavy-handed policing and panders to anti-immigrant prejudice. “Voters are very divided about him,” concedes Pierre Fond, Sartrouville's mayor, who is from Mr Sarkozy's party. “His image is strong, so he provokes strong reactions.” Mr Sarkozy has not been to the *banlieues* during his campaign.

With only two weeks left before the first round, fears of trouble in the *banlieues* have erupted again. Six hours of fighting and vandalism last week at the Gare du Nord, the station that serves many Parisian suburbs, after a passenger jumped the barrier and resisted a ticket check, stirred memories, and gave candidates a chance to air their differences over law and order.

Mr Sarkozy swiftly accused Ms Royal of “moral bankruptcy” for deploring the breakdown of trust between the police and ordinary citizens before denouncing the barrier-hopping passenger. In turn, Ms Royal charged Mr Sarkozy with failing to do anything for the *banlieues* and of using repressive policing methods. “Fire is smouldering in the ashes,” she said. “The slightest spark could set it off again.”

Five years ago, popular anxieties about insecurity, crime and the *banlieues* helped the far-right Jean-Marie Le Pen to edge out the Socialist candidate, Lionel Jospin, in the first round. Who stands to benefit from similar concerns this time? The Socialists have in Ms Royal a candidate who has sounded tough on crime, arguing on one occasion that young offenders should be put under military supervision. Mr Sarkozy has a mixed record in office. Overall crime has dropped since 2002 by 9%; but violent attacks have risen by 14%.

Yet Mr Sarkozy escaped mostly undamaged from the 2005 riots in the *banlieues*, and has retained his tough-cop image. A new poll by Ifop, a pollster, suggested that 43% of respondents find him the most credible candidate on security, next to just 15% for Ms Royal, and a surprisingly low 8% for Mr Le Pen. It is not natural territory for Ms Royal. This week she tried to steer the debate back to jobs and wages, by visiting striking workers at a car factory.

In the *banlieues* themselves, the political picture is more mixed. Sartrouville, with 53,000 residents, is home both to the housing project of Les Indes, one of France's 23 “most sensitive” zones, and to neat rows of detached houses with shutters and net curtains. It was badly scarred by riots in 1991, but only lightly touched in 2005. Today Sartrouville's main square has been scrubbed up, pedestrianised and decorated with giant potted plants and a fountain. A Muslim prayer hall has opened in a disused industrial building. Three tower-blocks are to be demolished.

After a pilot project that included more video-surveillance and outdoor lighting, crime has dropped. Older residents like Mr Sarkozy's tough line. But young hooded men complain of police harassment, and blame him for it. Others fear that he is pitting the French against one another, a factor that could work against him in a second-round run-off.

In the town hall, just up from the Afro-Beauté Salon, the mayor bets on Mr Sarkozy coming top in the first round. But he also says Mr Le Pen's support of 14% in the polls is underestimated. “I think he'll get closer

to 20%," he says. "The same preoccupations from 2002 are still there today."

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Greece's government

School for scandal

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A corruption row hits a previously popular government

A SCANDAL about state-run pension funds might worry any government. For Costas Karamanlis, the conservative prime minister who promised to clean up sleaze, allegations of corruption at a fund for Greece's 500,000 civil servants are especially damaging.

At issue are structured bonds, a risky investment vehicle. An Athens stockbroker is said to have overcharged the civil-service fund when it bought chunks of a €280m ($370m) structured bond issued in February by the Greek state. Market gossip has it that bond salesmen paid kick-backs to pension-fund managers chosen by Mr Karamanlis's New Democracy party.

Savvas Tsitouridis, the social-welfare minister, has sacked the civil-service fund manager (the son of New Democracy's finance boss) and called in a public prosecutor. George Alogoskoufis, the finance minister, has ordered an audit of Greece's 200-odd pension funds and banned investment in the risky bonds.

Only a handful of Greek pension funds are professionally managed. The state pension funds' investments of €30 billion are monitored by the central bank. Jobs as pension-fund managers and board members are dished out to people with links to the ruling party. The perks can be generous. “The bond affair was a scandal waiting to happen,” comments a local banker.

It comes after a three-month confrontation with students and professors over higher-education reforms. The state's monopoly on universities means they are poorly financed and staffed by political appointees. An Athens degree is enough for a safe job in the public sector, but young Greeks who want a higher-flying career head for universities abroad.

Mr Karamanlis's plan to change the constitution to permit private universities failed because he lacks a three-fifths majority in parliament. After hinting that they would support the change, the opposition Socialists backed off as street protests became more violent. So the government has settled for more modest reforms. A new law will set a deadline for students to take their degrees. Although rebel professors say they will not enforce it, universities should become more serious places without the 35-year-old “students” who lead most protests and sit-ins.

The voters have shrugged off Mr Karamanlis's failure over higher education, but the pension-fund scandal has dented his poll ratings. For the first time since March 2004, his party is less than a point ahead of the Socialists. Mr Alogoskoufis is leading the counter-attack, meeting Socialist accusations of “looting the state” with reminders of a stockmarket bubble in 2000 on their watch. Small investors lost €2 billion in a post-election collapse, when a government-run organisation stopped propping up the market by trading shares in state corporations.

Mr Alogoskoufis also argues that the economy is doing well. For the first time in a decade, unemployment is below 9%. GDP is growing by around 4% a year. Greek shipping companies, run now from Athens not London, are bringing home handsome profits from carrying China's imports of raw materials. Foreign investors are building new tourist resorts and second homes for north Europeans. A mini-boom in the Balkans is helping: a Greek bank opens a new branch in a neighbouring Balkan country almost every week.

Mr Karamanlis is watching the polls closely. Although George Papandreou, the Socialist leader, has recently adopted a more populist style, he lacks political credibility. Mr Karamanlis must decide soon whether to call an early election in October or hold on until his four-year term expires next March. If the bond scandal looks like producing more embarrassing revelations, he may go for a snap poll. Whatever he does, the government's clean image has been irretrievably tainted.

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Greek myths revisited

Testing Homer

Apr 4th 2007
From The Economist print edition

The latest claimant to be Odysseus's home meets a geological survey

ONE good way to rouse Greeks' pride is to contest their ancient history—especially if two rival Ionian islands are involved. Kefalonia's “Captain Corelli's Mandolin” boom is fading. Now the island is looking for a new claim to fame, and infuriating neighbouring Ithaca, by advancing its credentials as the homeland of Odysseus.

“The Odyssey”, by Homer, tells the tale of Odysseus's ten-year journey back from the Trojan war to his wife, Penelope. Four neighbouring islands are mentioned. Zakinthos has the same name today. Kefalonia is thought to be Homer's Same, because a local town is called Sami. The correlation with modern maps then stops. Doulichion does not exist. Ithaca does not fit its description: Homer's Ithaca “lies low”, but its modern namesake is hilly. And though Odysseus's island is “farthest to sea towards dusk”, today's Ithaca is close to the mainland in the east.

One solution is to postulate that Kefalonia may once have been split in two at the point where its Paliki headland joins the island. That would create a separate, low-lying island to its west: Ithaca. Today's Ithaca could then morph into Homer's Doulichion.

This idea seemed barmy when first proposed by a local historian a century ago. Grander people sought Homer's Ithaca on Lefkada or elsewhere on Kefalonia. Besides, the isthmus joining Paliki to Kefalonia is 180 metres (600 feet) above sea level, too high for the two to have been separate.

Yet John Underhill of Edinburgh University has found evidence that the isthmus is full of landslide rubble, which could have tumbled into a narrow sea channel during an earthquake. He has located possible exits for such a channel, as well as tiny fossils of Mediterranean algal blooms formed in the past 10,000 years. It looks as if some boulders sit atop layers of ash spewed out by known eruptions of Mount Etna, meaning they fell after Troy did.

The task of establishing if the sea ever divided Paliki from Kefalonia is about to get easier. Fugro, a geophysical prospecting company, has lent machinery for a full subterranean scan. If the geologists conclude that Paliki was once an island, that will boost its claim to be ancient Ithaca. Plenty of tourist dollars may ride on the outcome.

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Charlemagne

Transatlantic tensions

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From The Economist print edition

Peter Schrank

America may not applaud the European Union's next 50 years as warmly as its first 50

“USA applauds the EU's first 50 years,” read the ten-metre banner. Europe's political leaders must have noticed it, since the slogan was flapping over their heads from the unfinished American embassy as they posed for family photographs during the recent Berlin summit. They must surely have approved the sentiment—and reciprocated it too, since it has become conventional wisdom on both sides of the Atlantic.

For two or three years, European and American diplomats have been arguing that transatlantic relations are, in the words of Javier Solana, the EU's foreign-policy chief, “almost perfect”. It is not just that the two are no longer at each other's throats, as parts of Europe were with the Bush administration in the run-up to the Iraq war. They are working closely together in places such as Afghanistan, Kosovo and Lebanon. And on traditional transatlantic issues, such as trade, they think in terms of big projects such as a plan to tear down non-tariff barriers, which may get the go-ahead at the EU-US summit in Washington, DC, this month. In short, America and Europe are no longer Mars and Venus but a single sphere of influence surounded by rings of persuasion: Saturn, perhaps.

Mr Solana's “almost perfect” is a stretch, but transatlantic relations have certainly improved during the second Bush administration. The two sides have learnt to moderate their differences when dealing with third countries. For example, France, Spain and Italy want to resume direct aid to the Palestinian Authority; America, Britain and Germany do not. But all have agreed to impose sanctions on Hamas. Similarly, few Europeans would countenance military action against Iran; Americans just might. Yet America has supported the European three (Britain, France and Germany) in their diplomatic efforts to persuade Iran to give up its nuclear-weapons ambitions.

America and Europe have not magically started to see the world alike. They are, rather, suppressing their differences. America came round to diplomacy in Iran for lack of any alternative. In some ways, American support for the EU reflects the perception that Europe matters less than it did: it is convenient to treat Lilliputians as a single group. Yet America and Europe have also stumbled on a workable good-cop, bad-cop routine.

Even in straight transatlantic terms, the story is one of differences suppressed. The two have just signed an “open skies “ agreement on air transport after years of disagreement—admittedly only a partial liberalisation that seems to give more to the Americans than to the Europeans, but both hope to ratify it. Now they want to start negotiating on what has been misnamed a transatlantic free-trade area, but is in reality an effort to scrap barriers caused by different standards and regulations. Germany's Angela Merkel is keen on this idea, and it may win the backing of Britain's leader-in-waiting, Gordon Brown.

These examples of transatlantic co-operation have something in common. The economic ones reflect

deepening integration. European and American companies have billions of dollars of assets invested in each other's markets. Some 14m jobs now depend on transatlantic trade and investment. Equally, diplomatic activity in third countries has reminded Americans and Europeans of their shared interests. They are rich democracies in a world full of poor, authoritarian regimes. To that extent their values interlock just as their economies do.

Yet it would be foolish to build too many hopes on this similarity. Sweeping talk of a free-trade area is one thing; negotiating a deal quite another, requiring an attack on entrenched lobbies. Then there is the latest spasm of transatlantic distrust over America's planned missile shield in Europe. European reactions have been sobering. Germany's foreign minister has been more anxious about misplaced Russian security concerns than about European ones. Not for the first time, missiles have divided Europeans both among themselves and from America.

Operating on the fault-line

To America's eyes, Europe can seem strangely blind to broader geopolitical dangers. Consider the fault-line that divides Europe from Asia and Russia from the West. As some EU members shy away from yet further enlargement of their club, they risk provoking an anti-Western backlash in one aspirant country, Turkey. Farther north, by putting off any notion of membership for Ukraine, the EU may tip the scales in favour of the country's pro-Russian prime minister and against its pro-European president. As for Russia, many European countries seem strangely relaxed about their growing energy dependence on an unpredictable Russia. On all three counts, American diplomats are frustrated by what they see as Europe's insouciance.

If America and Europe do not always agree, can shared values keep tugging them closer together? Not always. Indeed, as the two continents' economies become more closely interlinked, some of their social and cultural differences are thrown into starker relief. America's openness to new technology conflicts with Europe's instinctive suspicion of genetically modified organisms, for example. Europeans complain that America still does not “get” climate change; Americans think Europeans are too addicted to generous social welfare. Europeans complain that Americans trample on private rights in the war on terror, not just in Guantánamo Bay but when demanding passenger data from airlines; Americans say that timidity over rules of engagement makes some European troops in Afghanistan useless.

The passing of vociferous European opposition to the Iraq war, combined with the policy failures of the strident neoconservatives in America, have made the transatlantic relationship easier. Some in Europe are also waiting, hoping, for a Democratic victory in 2008. But differences will surely persist, no matter who is in the White House, the Elysée or Number 10—continuing to keep the two sides apart despite their common goals.

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Crowded airports

Landing flap

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Rex

A tussle over Heathrow threatens a longstanding monopoly

TO DEATH and taxes, one can now add jostling queues of frustrated travellers at Heathrow as one of life's unhappy certainties. Stephen Nelson, the chief executive of BAA, which owns the airport, does little to inspire confidence that those passing through his domain this Easter weekend will avoid the fate of the thousands stranded in tents by fog before Christmas or trapped in twisting lines by a security scare in the summer. In the *Financial Times* on April 2nd he wrote of the difficulties of managing "huge passenger demand on our creaking transport infrastructure", and gave warning that "the elements can upset the best laid plans".

Blaming the heavens for chaos that has yet to ensue may be good public relations but Mr Nelson's real worries have a more earthly origin. On March 30th two regulators released reports on his firm, one threatening to cut its profits and the other to break it up. First the Civil Aviation Authority (CAA), which oversees airport fees, said it was thinking of reducing the returns that BAA is allowed to earn from Heathrow and Gatwick airports. Separately the Office of Fair Trading (OFT) asked the Competition Commission to investigate BAA's market dominance. As well as Heathrow, Europe's main gateway on the transatlantic air route, BAA owns its two principal London competitors, Gatwick and Stansted, and several other airports.

The OFT reckons that BAA's ownership of London's three biggest airports has shielded it from competition that could otherwise have pushed it to improve service, cut fees and expand capacity—all points of contention with Heathrow's beleaguered users. The airport consistently ranks near the bottom in surveys of quality of service and passenger satisfaction (see table). Terry Jones, of Monty Python fame, crooned his worries over Heathrow's baggage-retrieval system in the 1980s and little has changed since then. Heathrow's bosses argue that the airport's age and heavy traffic account for its poor showing in the league tables, and that things are improving.

Headwinds

Quality rankings of 35 selected international airports

	Rank		Rank
Seoul	1	Sydney	20
Hong Kong	2	Rome	28
Dallas-Fort Worth	3	**Heathrow**	**32**
Brussels	11	Madrid	33
Amsterdam	16	Moscow	34

Source: Australian Airports Association

On the fees it charges the airlines that use it, Heathrow is about midway: a study last year by TRL, a consulting group, ranked it 19th out of 38 airports. Yet despite its

healthy receipts BAA has been slow to invest in useful new capacity, and especially at Heathrow.

The airport is meant to accommodate about 45m people a year, yet it now squeezes 68m souls through its groaning gates. Airlines grumble about BAA's investment priorities: instead of expanding waiting areas and pressing for permission to add runways, BAA seems intent on building shopping malls more geared to separating travellers from their money than speeding them to their flights.

BAA argues that unless it is allowed to charge much higher fees it will not be able to invest enough. It asked for real increases of 12.3% a year from 2008 at Heathrow. If the CAA persists in its proposal to allow price rises of only 5.8%, the money for investment will not be there, BAA says.

The OFT, for its part, thinks the problem may be structural. It suggests breaking up BAA, which was bought in 2006 by Ferrovial, a Spanish firm, for £10.1 billion ($18.8 billion). Airlines reckon that because BAA owns all of London's main airports it has been holding back expansion at popular Heathrow in an attempt to push customers into using existing capacity at less-favoured places such as Stansted. If the airports were separately owned and bidding against each other for business they would all be more likely to invest in new runways and terminals, as well as in better transport links to lure customers.

In time, the Competition Commission may come to agree. If it does break up BAA's monopoly, is there still a need for regulation? Most airlines, understandably, argue that price controls should be kept in place, for Heathrow, even on its own, will continue to have immense market power.

But it is markets, not regulators, who are best placed to set prices and signal investment opportunities. Heathrow's chronic overcrowding is in large part the result of artificially low landing fees and the inefficient allocation of landing slots. The airport offers access to the most profitable major route in the world—business travel across the Atlantic—and its value is about to increase in the wake of an agreement between Europe and America to liberalise routes (see article). Its regulated owner cannot charge as much for this access as the market would bear. Fees are capped and landing slots are generally inherited, prompting airlines to hang onto them even at the cost of scheduling unprofitable flights to retain them. Both need to change.

Letting Heathrow charge fees that reflect users' appreciation of its position would be likely to drive the least profitable short-haul flights to cheaper airports, freeing capacity for long-haul flights. And giving airlines clear title to their landing slots (landing rights do change hands now but the legal force of such transactions is in doubt) would allow a serious market in them to emerge. This in turn would send useful signals about how airlines value capacity and allow airport owners—whether one or many—to target their investments more precisely.

Such policies might also help with another important issue. Airport expansions, however strong the economic incentives for them, are almost always opposed by those who live nearby. Airports impose costs—such as pollution, noise and traffic—for which their owners do not adequately reimburse the communities around them, as local authorities' frequent reluctance to grant planning permission demonstrates. Higher revenues might permit airports to compensate their neighbours more effectively and win over their opponents.

If this proves fruitless, and market forces drive up the price of Heathrow as they should, it could prompt investors and airlines to give up on the place and dust off plans for a new airport well away from population centres—Cliffe in Kent, for example, could do nicely. This ought to have been considered more seriously in 1946, the year Heathrow was opened, but a switch has not looked financially viable since then. If the regulatory blocks are removed from the aviation industry's wheels, it could.

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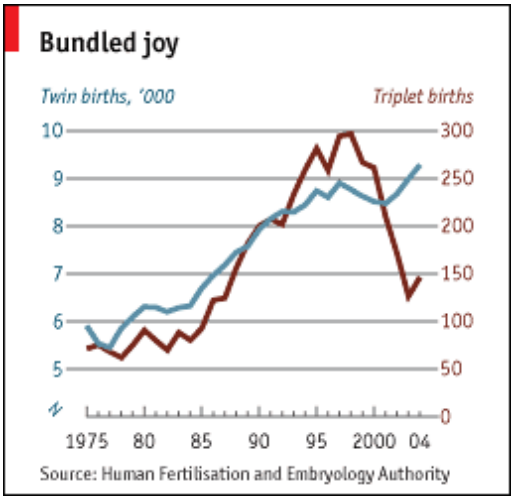
Fertility treatment

Quality, not quantity

Apr 4th 2007
From The Economist print edition

Britons don't think infertility matters. That is why so many end up with twins



TO THE one British couple in seven that has problems conceiving, twins sound like a dream come true. So when would-be parents turn to *in vitro* fertilisation (IVF), they almost always opt to have as many embryos returned to the womb as they are legally allowed (two, or three if the woman is over 40), even though they know that multiple births are especially risky. The result is that two-fifths of IVF babies are twins. And fertility treatment is now so common that it is distorting the nation's demographics (see chart): around a quarter of all twins have been conceived in a petri dish.

Sharing a womb is not an ideal start to life. Twins who survive their much higher rates of miscarriage are often born early and small, which puts them at higher risk of cerebral palsy, low IQ and even death during their first year. Their expectant mothers are more prone to high blood pressure, diabetes and heart problems. Around half of all twins are transferred to intensive-care units soon after birth.

Now the Human Fertilisation and Embryology Authority (HFEA), which licenses fertility clinics in England and Wales, has decided enough is enough. On April 4th it started a three-month consultation on changes in the way fertility treatment is carried out. The new rules, due to come into force in October, aim to halve the number of twin IVF pregnancies.

Up for discussion are various possible ways to do this. They include educating fertility doctors and their patients about the dangers of multiple births; imposing a limit—probably 10%—on the proportion of births which twins may account for at a clinic; and enforcing rules that set out exactly when clinics are allowed to return two embryos to the womb. The idea is to ensure that only one embryo is put back in women most likely to conceive, whereas two are allowed to those less likely.

Some countries, notably Nordic ones, have already managed to cut the number of twin births resulting from fertility treatment. Provided a woman is reasonably young and healthy, and has not already had many failed IVF attempts, in each IVF cycle only the embryo that develops best is returned to her womb. Any spares are frozen, to be thawed later if the first embryo does not survive. These carefully-selected women are almost as likely to get pregnant this way as if two fresh embryos had been put back in the first place, and the risk of multiple pregnancy is almost eliminated. (A few identical twins would still emerge.)

Persuading patients and clinicians of the merits of this approach depends on generous state funding for fertility treatment: it seems that patients are willing to accept a slightly lower chance of conceiving in any one cycle in return for more attempts. Moral pressure is also brought to bear. In Finland fertility doctors are taken on tours of neonatal wards, so they get to see the tiny, suffering scraps of humanity born too early because they were crowded in their mothers' wombs.

In Britain, though—unlike Finland and every other country that has successfully reduced IVF twin births—most infertile people must pay for their own treatment. Government guidelines, issued in 2004, say that all patients for whom IVF is “suitable” should have three treatment cycles paid for by the National Health Service (NHS), but rarely does this happen. Those patients who get public money are usually offered only one IVF cycle, and in some areas there is no public funding of IVF at all.

This means that binding rules are likely to be needed to cut the number of IVF twins in Britain. Otherwise, with a single IVF cycle costing around £5,000 ($9,890), patients will be unwilling to accept even a tiny reduction in their chance of pregnancy, and so will ignore the risks in favour of returning as many

embryos as they can. It took strong words from the HFEA in 2001 to start to bring down the numbers of triplets conceived by IVF, followed by the threat and then the reality of stricter rules. Now that women under 40 can have at most two embryos put back, the rate has halved since its peak in 1998.

Some experts consulted by the HFEA held that new rules which might reduce the chance of conceiving should be introduced only if more fertility treatment were paid for by the NHS—something that the HFEA does not have power to arrange. Others said that the risk inherent in multiple births was too urgent to wait for the NHS to change its spending priorities.

The irony is that delivering and caring for twins costs 16 times as much as for a singleton. The HFEA's advisors calculate that the money now spent on looking after desperately-ill premature IVF babies would be enough to pay for three treatment cycles for everyone who needs them. In the meantime, patients must weigh the risks of multiple pregnancy against the prospect of remaining childless.

Even those most familiar with the sufferings of the infertile seem unsympathetic towards them. Only pregnancy is a more common reason than infertility for a woman to visit her doctor; yet a recent poll found that almost all family doctors thought patients who needed fertility treatment should pay for it themselves (not so those with varicose veins, for example). It is perhaps symptomatic of the low value placed on children and family life in general; another poll, last year, found that most Britons thought work, money and fun were all more important than having children.

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Victorian public baths

Reincarnation

Apr 4th 2007 | WALWORTH AND HARROGATE
From The Economist print edition

How to save Britain's historic pools

PRAYER flags fluttered and Tibetan horns sounded. As a golden Buddha looked serenely on, Manor Place Baths in Walworth, south London, began an exotic new phase in its 109-year life. The public pool and wash-house hosted its final swim in 1978 and by 1995 was too shabby for use. But a couple of years ago the local council found an answer: a Buddhist group agreed to renovate the building in return for a five-year peppercorn lease. Manor Place is once again full of people receiving distinctly Victorian-sounding alternative treatments ("cranial therapy", anyone?).

Most British towns have a Victorian pool or two, thanks to the 1846 Public Baths and Wash Houses Act, which gave local authorities the power to raise funds to keep the working classes clean and healthy. Since then demand has ebbed: the poor have their own facilities these days and the rich slope off to private clubs. Cuts to council budgets in the 1980s made it hard to sustain the underused public pools, and changing fashions in leisure meant that, where there was demand, people wanted flumes and wave machines. Beauties such as Manor Place were left to moulder while flash new leisure centres went up.

Most councils are stumped for what to do with the baths, Buddhist builders notwithstanding. Demolition is unpopular and in any case many cannot be torn down. A survey in 2001 by English Heritage, which advises the government on what is worth preserving, counted 79 public baths in England that were "listed", a status which protects especially beautiful or significant buildings. The result for many is decaying emptiness.

Yet imaginative conversions have kept some baths alive. Suspects held at London's Marylebone Magistrates' Court can while away the hours admiring (or defacing) the elaborate tiling of their cells, left over from a glorious Pompeian baths (prisoners are held in what used to be the pool). In Bradford, heads still swim at Windsor Baths, which now houses a Wetherspoon's pub. The chain has another branch, the Swim Inn, in a former Turkish baths in Sheffield. London's Bridewell Theatre has similar watery origins.

History lovers are for the most part pragmatic about such changes. "The worst thing for any building is to be empty," says Ian Dungavell, director of the Victorian Society, which campaigns for the preservation of that period's architecture. English Heritage takes a similar line, backing projects such as Manor Place.

For a few lucky baths, full renovation beckons. A BBC series, "Restoration", awards grants to restore dilapidated buildings chosen by viewers. A recent winner was the Victoria Baths in Manchester, a brick palace laden with terracotta and stained glass. The £3.4m ($6.7m) prize is nowhere near enough, but it's a start. In Camden, north London, councillors have just agreed to a £25m renovation of Kentish Town Baths, whose façade includes a terracotta tableau of the Thames river god. Liz Hughes of the London Pools Campaign senses a slight turning of the tide of closures, noting a couple of new outdoor lidos. More than architecture is at stake: the number of children leaving primary school unable to swim has risen from one in six in 2003 to one in five, according to the *Times Educational Supplement*.

In any case, councils that sit on their assets could be missing a trick. The fad for health spas means there is money in restoration—just ask Harrogate, which played on its spa-town strengths in 2004 by refurbishing its Royal Baths for £10m (most of which was raised privately). The new spa is wildly popular with locals and tourists alike, who pay up to £16.50 a time to swelter in the mosaic-encrusted *calidarium*. Most impressively, the council owns and runs the spa itself, so every waxed armpit means income for the town.

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Secondary markets

Arbitrage against the machine

Apr 4th 2007
From The Economist print edition

Ticket touts are making powerful enemies

AS A fixture in the nation's sporting and cultural calendar, the Glastonbury music festival now ranks alongside football's Cup Final or racing's Grand National. The 136,500 tickets for this year's event sold out in less than two hours when they went on sale on April 1st, though they cost £145 apiece.

It was not always thus. When it started in 1970, the festival cost the few hundred hippies who attended it only £1 each. Entry was free the following year. Since then, as music festivals have multiplied, Glastonbury has become the gold standard of the genre. But the embrace of the establishment has done more than simply raise prices at the gate. It has also brought ferociously tough security measures in an attempt to confound ticket touts, who resell tickets for concerts and sports events, often at vastly inflated prices.

This year potential revellers were required to submit a photo, to be printed on their tickets and digitally scanned at the festival gate. So far the tactic seems to have worked: Glastonbury tickets were conspicuously absent from auction websites and re-selling agencies this week. The festival's boss, Michael Eavis, told the BBC that he was “absolutely thrilled”.

At first glance, his vehemence seems odd. Ticket touting is nothing new, as any West End theatre-goer will attest. But promoters argue that the internet has transformed the business from a few men in grubby coats outside a venue into a fully fledged industry. Sporting bodies and the music industry have been urging an official crackdown on touts for several years.

Defenders paint touting as merely the market's way of correcting artificially low ticket prices. The deals are between willing buyers and sellers. And touts do not always make a profit. Attendance at Royal Ascot, an annual high-society parade with some horse-racing attached, plummeted when it was moved from Berkshire to York in 2005. Glum touts were offering tickets to curious locals at a fifth of their face value.

Indeed, the existence of a secondary market implies that demand outstrips supply. Why don't promoters simply charge a market-clearing price for the tickets instead of bashing middlemen who do? Because that would be “unfair”, they say, leaving “genuine fans” squeezed out of popular events by dilettantes with fat wallets.

Economists (and cynics) offer another explanation. Stefan Szymanski, at London's Imperial College, points out that it is in promoters' interests to underprice their products. “You get a much better PR payoff if your event is oversubscribed,” he says. “And since demand is hard to predict, the rational thing to do is to underprice aggressively.” Canny firms recoup their losses on the door by selling overpriced merchandise and refreshments to the captive audience inside.

Though ministers have made sympathetic noises to the anti-tout lobby, they have stopped short of banning the practice. Only football tickets are off limits, and that was designed to squelch hooliganism by segregating rival supporters, not to promote social justice.

So entertainers are looking at other options. The Concert Promoters Association wants to attach a set of conditions to all tickets, preventing resale at a profit. It plans to send them to the Office of Fair Trading for approval. But it seems unlikely that Britain's competition regulator will rubber-stamp such a price-fixing agreement.

If promoters can't beat the touts, they may join them, auctioning some tickets off to the highest bidder. “If we can't get the secondary market outlawed, we'll take control of it,” says Rob Ballantine, the CPA's spokesman. That may not put the men in the grey mackintoshes out of business, but it could cramp their style.

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Britain's Somalis

Settling in

Apr 4th 2007 | TOXTETH, LIVERPOOL
From The Economist print edition

Things are looking up for Britain's largest refugee community

GLOOM had descended on the Lodge Lane Somali Women's Group. The landlord was selling up and the small Liverpool charity did not have enough money to buy him out. Eviction was two weeks away. Then in walked Mariam Gulaid, the group's treasurer, with a bulging carrier bag. Inside was £14,100 in cash, raised in a whirlwind door-to-door collection from local Somalis—"all women," she adds proudly. They are now on the way to buying the building.

Little is known of Britain's Somalis. Even counting them is hard: the 2001 census came up with a total of 43,691, but surveys since then suggest a number nearer 100,000. A century-old trickle of economic migrants became a flood of refugees in the 1980s, increasing in the late 1990s as tens of thousands fled violence. Somalis are now Britain's largest refugee group.

News tends to focus on the criminal exploits of their young men, who have acquired a fearsome reputation in some quarters. Reporters might learn more from the women: they are finding their feet, and helping friends and family find theirs.

"The men always say that women change when they come to England," says Mrs Gulaid, who estimates that at least half the women who come through her door are single parents, either through death or, increasingly, divorce. For women, life in Britain means support from the state and, through this, independence from their husbands, she says.

Somali men seem to have a bumpier transition. Three-quarters have been to secondary school and one in ten has a degree, but language difficulties and unrecognised qualifications make unemployment the norm. Jill Rutter, a migration researcher at the Institute for Public Policy Research, a think-tank, estimates that 65-70% are out of work. All-night sessions chewing qat also play their part (see article).

Down the road from Lodge Lane is the Merseyside Somali Community Association, a men's club. The brightly painted building is more a social venue than the action-oriented women's centre, which means that some men sneak into the women's group for advice. Osman Mohamed, its chairman, says hysteria about terrorism and suspicion directed at groups of black youths have given Somali men a reputation they do not deserve.

It is hard to sort fact from fiction, as crime figures are broken down only by broad racial categories. Somalis have made the news for a few ruthless crimes, including the murder of Sharon Beshenivsky, a rookie police officer, in 2005. But police say these villains are unrepresentative. Paul Hurst, a police constable who has patrolled Toxteth's Somali neighbourhood for 21 years (and visited Somalia on a police bursary), reckons a hard core of about 30 Somali youths are active in car crime and low-level drug-dealing in the city. Nonetheless, crime in Somali "Tocky", as Toxteth is known, is lower than in neighbouring Picton and Wavertree, and light-touch policing has kept the peace. A repeat of the bloody Toxteth riots of 1981, when local Afro-Caribbeans clashed with police, is unthinkable, everyone agrees.

The outlook for young Somalis is brightening. Lack of English among newly arrived refugees has prevented progress at school: a 1999 study of students in Camden, north London, found that just 3% got five good GCSE qualifications, compared with 48% of all students (and 21% of refugee children). But as the number of asylum seekers has plummeted, achievement has soared: in 2005 24% of Somalis in Camden got their five good passes.

The fall in new arrivals has also damped down clan tensions, often blamed for causing fractures in the community. The Information Centre about Asylum and Refugees, a research body, counts at least 100 Somali organisations in London. Now, Liverpool's various bodies have overcome their differences to form an umbrella group, which is badgering the council for a joint community centre.

Image remains crucial, especially to elders who fear their community is unfairly smeared by impostors. Economic migrants from all over east Africa (some of them ethnic Somalis) claim to be from Somalia to boost their chances of gaining asylum: a favourite pastime of British Somalis is spotting the fakes. Hussain Osman, on trial for trying to blow up a London station in July 2005, is considered one of Britain's highest-profile Somalia-born refugees. He may be nothing of the sort. Italian police say he is Hamdi Issac, and Ethiopian.

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Qat

Something to chew over

Apr 4th 2007 | WEMBLEY, LONDON
From The Economist print edition

Trade is booming—and busting up families

THE discreet sign and dimly-lit staircase are not promising; nor is the silence that greets your correspondent when he interrupts a dozen Somali men to ask if this is the place to buy qat. But around the back, along a terrace and up another flight of stairs, sits a happy circle of youths, surrounded by discarded plant stems and beaming deliriously.

This is a *mafresh*, where people come to chew the leaves of *Catha edulis*, a celebrated east African shrub with narcotic properties similar to amphetamine. The leaves, known as qat, contain the stimulants cathinone and cathine, rendering them illegal in America, Canada and most of Europe.

Not so in Britain, which treats the plant as a harmless vegetable and allows its unrestricted import, export and sale. This is good news for the country's Somali, Yemeni and Ethiopian population, all regular chompers (a third of all Somali adults indulge). Demand from these communities has created a supply chain bringing bundles of stems from Africa to Britain, wrapped in banana leaves to keep them fresh. Their potency declines from the moment of harvest, so suppliers pull out all the stops to get their product into Britain's *mafreshi* within 24 hours.

The scale of the operation is breathtaking. A Home Office report in 2005 found that up to seven tonnes of qat is imported into Britain every day, mainly from Kenya. A 150-gram portion—a single dose—can be bought for £3, which suggests that the British market is worth some £51m a year for 17m hits.

Given that the target community numbers fewer than 200,000 (including a lot of children), this is a suspiciously large amount. The government reckons much of the stock is for export to markets where it is illegal—especially America, where a £3 British bundle can fetch ten times that much. Many would-be smugglers are intercepted there at customs, but Britain's soft line means they face no punishment when sent home.

Somali women in Britain have long backed a ban, sick of seeing their husbands buzz all night and snooze all day. A survey by Nacro, a crime-reduction charity, found 57% of Somali women thought qat chewers made bad fathers. “My brother does not hold on to jobs because he is up all night chewing,” was one typical response. In the same survey, two-thirds of users admitted they had trouble sleeping and half felt tired or depressed the morning after a session.

Despite this, the government last year approved a report recommending that the drug remain legal. Prohibition would raise its price, it was argued, causing organised criminals to move in and wrench the market from local businesses. In any case, the report noted reassuringly, the scourge was limited to Somalis and Yemenis, and there was “no evidence of qat use in the general population”. No need to worry then.

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Bagehot

Time for a fight

Apr 4th 2007
From The Economist print edition

Steve O'Brien

The more damaged Gordon Brown becomes, the more he needs a proper contest to restore his leadership credentials

THESE are increasingly grim days for Gordon Brown, the prime minister-in-waiting. After a poorly received budget and the lethal comments of Britain's former top civil servant about his working habits, the chancellor is now grappling with new allegations over a decision on taxing pension funds he made a decade ago. Far from surging forward confidently to seize Mr Blair's crown when he finally relinquishes it at the end of June, Mr Brown staggers painfully onward, bloodied by the barbs and arrows that keep coming at him from all sides. He looks less like Labour's great hope of renewal than someone who has been mugged by his own history. Rarely has a coronation promised to be a more miserable affair.

Mr Brown's latest bother comes courtesy of the *Times* newspaper, and its diligent use of the Freedom of Information Act. After a two-year battle, on March 30th the paper obtained documents from the Treasury that showed how Mr Brown took one of his first and most controversial decisions—to deprive pension funds of £5 billion ($8.2 billion in 1997) a year of tax relief on their income—in the teeth of warnings against the move. Officials reckoned that it would cost occupational and private pension schemes £75 billion over ten years (an underestimate, in the event) and penalise millions of pensioners. Other forces also helped undermine Britain's once golden pension system—stockmarket blues after the collapse of dotcom stocks, low interest rates, contributions holidays by companies and rising longevity. But few would dispute that Mr Brown, in his drive for revenues, made a fragile situation worse.

Ed Balls, who as one of Mr Brown's closest advisers was party to the decision, tried to mount a blustering defence of the policy. That only made matters worse. Mr Balls, now a Treasury minister, claimed that the *Times* had made “a complete travesty of the information”. He argued that civil servants had been in favour of the decision and that the CBI, the employers' organisation, had lobbied for it strongly. Neither was true. After Lord Turner, who was head of the CBI at the time, more or less accused him of lying, Mr Balls issued a statement retracting his earlier claims.

This dispute is more than a re-hashing of ancient history. If legions of retired people believe that they face a more difficult future because of decisions that Mr Brown took in defiance of better advice, it will go hard with him. For many others, the episode will seem to sum up what can go wrong when policy is decided by a small, tight-knit group of arrogant men. Adding to the bitterness is the painful contrast between the pensions that most private-sector workers must now scrimp to save for and the lavish final-salary schemes funded by taxpayers for public-sector workers, which the government dares not tackle.

The last thing the chancellor needs is more unflattering light cast on the way he works, especially on his ruthless exclusion of dissenting voices. The row also damages his much vaunted record of competent economic management, which is already showing signs of strain. Yet the story does not seem to be going away: the Tories have announced a debate on Mr Brown's pension record after Easter, there are calls for an inquiry by the government actuary and newspaper interest has not slackened, despite the drama of the hostages in Iran.

It all adds to a growing and uneasy feeling within the Labour Party that it is not quite right for Mr Brown to avoid a proper contest for the leadership of his party, though this still seems likely. Many worry that unless the doubts about Mr Brown can be purged by a real competition they will persist, damaging both him and the party.

This is not, needless to say, a view held by the Brown camp, which has been trying energetically to squash any possible opposition even before it rears its head. Mr Brown's campaign chief, Jack Straw, has smoothly asked anyone who “would like to be involved in Gordon's campaign” to let him know, please. The message is that, for those who want to show their loyalty, time may be running out. The half dozen or so deputy leadership candidates fall over themselves in their attempts to flatter Mr Brown, in the hope of winning a seat somewhere near his right hand. Meanwhile, attempts by other, less supine, MPs to press David Miliband, the young environment secretary, into running cause anger and dismay among the Brownites, no matter how many times and in how many ways Mr Miliband pledges his allegiance to their master.

Trial by fire

So far the only heavyweight figure who seems to be thinking seriously of mounting a challenge to Mr Brown is Charles Clarke, the former home secretary. Mr Clarke is no admirer of Mr Brown and he has distinguished himself in a series of thoughtful speeches in recent months. He has argued for co-payments by users to help finance public services, more green taxes and a stronger commitment to Europe. He has also expressed doubts over the rush to replace Trident, Britain's nuclear deterrent. Last week he criticised moves to split up the Home Office.

Whether Mr Clarke runs will depend in part on whether he can muster the required 44 supporting signatures from Labour MPs. As long as the Brownites persist in seeing any backing of a rival candidate as a hanging offence, Mr Clarke, who cuts quite a lonely figure at Westminster these days and has only a few brave backers, will struggle to get himself on the ballot.

For their part, the chancellor's supporters are bent on getting their man into Number 10 with the least possible difficulty or upset. They appear to care little that the resulting stitch-up will strike many voters as shabby and unconvincing. It is time they realised that the more tarnished Mr Brown has become, the more urgently he needs the purifying fire that only a proper contest can provide.

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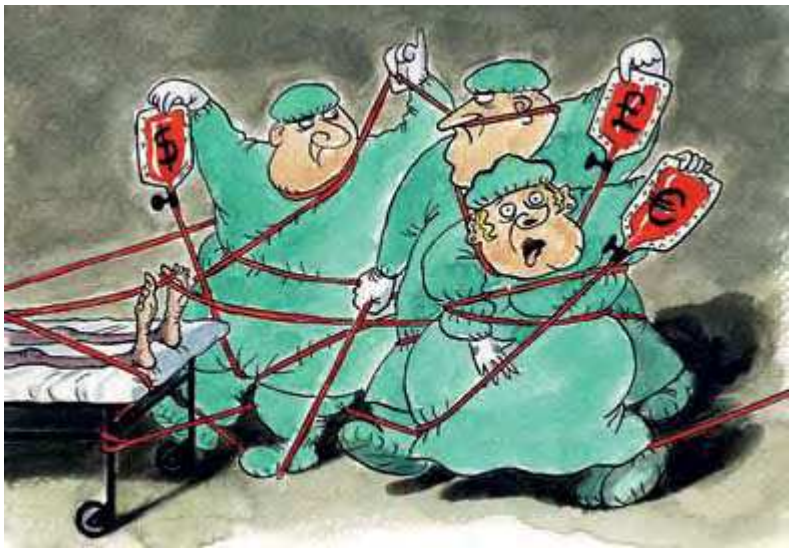
Foreign aid

The non-aligned movement

Apr 4th 2007
From The Economist print edition

Claudio Munoz



The quality of aid matters as much as the quantity

MAIMONIDES, a 12th-century rabbi and philosopher, argued that it is better to give anonymously, like the sages who secretly placed coins under the doors of the poor, than to flaunt your generosity. Better still, he said, to pool your charity—by contributing to a *tzedakah* box, for example—so that neither the poor nor their benefactor know the other's identity.

The club of 22 governments who dominate foreign aid would not rate very highly by the Torah's reckoning. This week they met in Paris to measure progress on two big commitments made in 2005. In July of that year, those world leaders who gathered for the G8 summit in Gleneagles in Scotland promised to increase aid to $130 billion, and double aid to Africa, by 2010.

But giving freely only gets you past the lowest rank of benefactors in Maimonides' scheme. An earlier pledge, made in Paris four months before, would have impressed him more. Donors promised to be more self-effacing in their charity, to “harmonise” their efforts with other benefactors, and “align” them with the priorities of governments they were trying to help.

Sadly, progress on both pledges is weak. According to the latest aid figures, released this week by the Organisation for Economic Co-operation and Development (OECD), donors gave $104 billion to poor countries last year, 5% less than in 2005. Donors also remain intrusive, cumbersome and rivalrous in their giving. Far from slipping money quietly under doors, they are forever inviting themselves in to nose around. The OECD reckons that, between them, 31 poor-country governments received 10,837 donor “missions” in 2005, almost one a day. Even those that explicitly asked for “quiet periods” to get on with their real work were not spared.

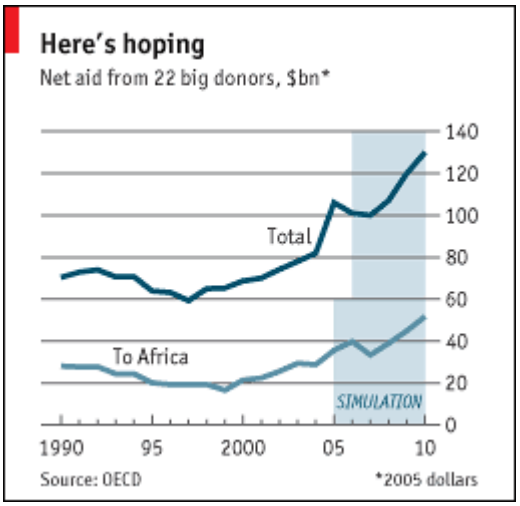
The OECD's money-count is, it says, distorted by debt relief. In 2005, donors forgave vast amounts of red ink; last year, they wrote off a little less ($3 billion of Iraq's outstanding debts; $11 billion of Nigeria's). Nonetheless, the OECD reckons that if donors are to keep faith with their promises in Gleneagles, their giving will have to rise by 11% a year between 2008 and 2010, faster than any other item of public spending. But in a survey last year, it saw little sign that rich-world budget-makers were girding themselves for such an effort. One test, it notes, is the money they promise this year to the World Bank, which must refill its aid pot for the three-year period from 2008 to 2011. This pot is the closest thing the aid world has to the collection tins that Maimonides favoured: 40 of the bank's richer shareholders pool their donations in support of 82 of the world's poorest countries.

But the shareholders will have to choose between their fidelity to Gleneagles and their disillusionment with Paul Wolfowitz, the World Bank's president. He has unnerved them with his swashbuckling fight against corruption, and exasperated them with his ruminative style of management.

Such uncertainties should worry a prudent African finance minister. Can he count on seeing some of the extra $25 billion the continent is promised by 2010? Of the G8 leaders who signed that pledge, half have already departed, two are on their way out, and the remaining pair will be gone before 2010. Even if donors meet the target, the aid may arrive in a sudden and unmanageable rush a year or two before the deadline.

Only about 65% of aid actually arrives on schedule, according to the OECD. Finance ministers must cope with shortfalls and windfalls. Zambia was due to receive $930m in 2005, but ended up with just $696m. Vietnam which was expecting about $400m, got roughly $2 billion.

Because the aid they receive is such a capricious, volatile commodity, governments dare not make full use of it. They could hire legions of extra teachers, clinicians and civil servants, but only if they are prepared to fire them when the aid spigot is closed. They could put AIDS-sufferers on anti-retroviral therapies, but only if they are willing to discontinue treatment once the money stops. Not surprisingly, some governments choose to hoard aid rather than spend it. In 2001-03, Ghana received an extra $1.3 billion of aid; $1.2 billion collected in the vaults of its central bank.



Aid is also poorly co-ordinated. A trio of researchers compared donors with a gaggle of crop-growers, spraying water hither and thither, leaving some plants parched, others deluged. After the Indian Ocean tsunami, according to a report in *El Pais*, an Acehnese girl developed measles symptoms thanks to three identical jabs from different aid agencies.

The Paris declaration hopes to bring a modicum of order to these directionless crop-growers. It commits donors to back a government's own strategy to fight poverty, rather than impose their own tastes and tactics. Unfortunately, argues David Booth, of Britain's Overseas Development Institute, many such strategies are little more than political “theatre”.

Where donors and governments do see eye to eye, there may be little need for aid agencies at all. The British government, for example, could simply write a cheque to its Tanzanian counterpart. Some donors do just this, bankrolling governments they trust, and letting them manage the money themselves. About £1.2 billion ($2.4 billion) of British aid will top up government budgets in this way next fiscal year.

Other donors are less enthusiastic. They may want to trumpet their good deeds, or have real or imagined doubts about the recipient's book-keeping and budgeting. Even countries with “moderately strong” exchequers were not always trusted to audit their aid money, the OECD notes. “The very countries that helped us reform our systems, then don't use our systems,” complains Paul Lupunga, a senior Zambian official.

The Paris declaration says that donors must be accountable to beneficiaries. For now, most prefer to please their voters.

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Marine research

Deep waters

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The riches of the deep—and who owns their DNA

A GOLD rush is luring prospectors eager to profit from the genetic code of organisms that live in horridly harsh environments such as undersea volcanic vents. Finding them is hard enough. Deciding their ownership is even trickier.

A typical example comes from freezing, lightless mud 1,000 metres (3,000-odd feet) below the surface, the home of the microbes from which salinosporamide A is extracted. Though not yet licensed, Sal A, as it is dubbed, may be a potent anti-cancer drug. Its patent-holder, Nereus Pharmaceuticals of San Diego, is running clinical trials.

But who owns micro-organisms in international waters? Developing nations want to avoid a bonanza for the privateers. They argue for universal ownership, through expanding the reach of the Jamaica-based International Seabed Authority. This regulates seabed mineral deposits, describing them as “the common heritage of mankind”. The same principle should apply to bugs as well as ores, poor countries argue.

America, Japan and some other industrial nations object. Rather than waste precious time and money debating new international laws, they say, efforts should go to using existing regimes, such as the Law of the Sea. Critics call that a delaying tactic; supporters call it a sensible wait-and-see approach.

The European Union, on the other hand, wants a new regime. Existing laws do not “properly cover genetic resources”, the European Commission declared in a 2006 report. It is open to the developing world's desire to include technology transfer in any new deal.

In June the UN will debate the matter. Russell LaMotte, an international ocean-law expert, says none of the concerned parties cares enough to force the issue; moreover, the huge costs involved in prospecting make it hard to negotiate toughly with an industry still looking for its underwater El Dorado.

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Human rights

Bad counsel

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From The Economist print edition

The UN adrift on human rights

“WE WANT a butterfly,” John Bolton, then America's ambassador to the United Nations, said a year ago when explaining his country's rejection of plans to replace the UN's High Commission on Human Rights with a leaner and supposedly more credible Human Rights Council. “We don't intend to put lipstick on a caterpillar and call it a success.” Mr Bolton, now in enforced retirement from the UN, may feel vindicated as the ludicrously painted creature creeps along, seemingly doomed never to metamorphose and take wing.

In its fourth regular session, which ended in Geneva on March 30th, the 47-member council again failed to address many egregious human-rights abuses around the world. Even in the case of Darfur, on which one of its own working groups had produced a damning report, it declined to criticise the Sudanese government directly for orchestrating the atrocities, limiting itself to an expression of “deep concern”. Indeed, in its nine months of life, the council has criticised only one country for human-rights violations, passing in its latest session its ninth resolution against Israel.

This obsession with bashing Israel and turning a blind eye to so much else has disappointed those who hoped that the new council might perform better than its predecessor. Now alarm is growing that its anti-Israel bias is going to be compounded by an excessive zeal to defend the good name of religions, and especially that of Islam, at the expense of free speech.

A new resolution, proposed by Pakistan, on the need to combat the “defamation of religions”, has drawn sharp criticism from watchdogs. Human Rights Watch pointed out that a focus on the protection of religions, rather than individuals, could be used to justify curbs upon free thought and conscience. Freedom House said the resolution was inimical to free speech and constituted “a perversion of the language and institutions hitherto used to protect human rights”.

The actual wording of most of the resolution is not in fact so objectionable. After voicing concern at “attempts to identify Islam with terrorism, violence and human-rights violations”, it urges states to prohibit the dissemination of “racist and xenophobic ideas and material aimed at any religion or its followers that constitute incitement to racial and religious hatred, hostility or violence”. So far so good, perhaps. But it goes on to say that free expression should be exercised “with responsibility”, and may be limited in regard to “public health and morals”, and, worse still, “respect for religions and beliefs”.

There's not much encouragement for future Voltaires in that. As a piece of advice on manners, the proposition that freedom of expression should be exercised responsibly may well be sound. As a principle on which to organise society, it is not. The right to free speech is not a right if it cannot be exercised irresponsibly and, so long as it does not promote violence, jinx trials, libel individuals without cause or, in rare circumstances, threaten national security, freely is how many feel it is best exercised. Mankind has long advanced in the slipstream of ruffled feathers: a society in which no one may cause offence is likely to moulder in unquestioning obedience to the rules of those in authority.

Of the 17 members of the Organisation of Islamic Conference on the council, all but one voted for the resolution, along with China, Russia and South Africa. Fourteen Western countries voted against, including all eight EU states, plus Japan, Ukraine and South Korea (home of the UN's new secretary-general). Nine countries, all from the developing world, abstained.

A central task for the new council was supposed to be regular reviews of human rights in each of the UN's 192 member states. But nine months since its founding, nothing has happened. A key test of whether the council would prove any better than its derided predecessor would be to get this “universal periodic review” under way, Louise Arbour, the UN's respected High Commissioner for Human Rights, told the Geneva meeting. The council has now given itself a year to establish such a mechanism.

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Climate change

All washed up

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As the evidence of global warming proliferates, so do the nasty consequences

WE WERE right, all along. That is the likely thrust of the latest report from the Intergovernmental Panel on Climate Change (IPCC), a United Nations body set up to pronounce authoritatively on the science of global warming. In 2001 it predicted that global warming would lead to many ills, including greater numbers of extinctions, growing shortages of water, higher incidence of tropical diseases, and lower yields from agriculture, fishing and forestry in some places. Now the scientists who write the reports say they have much stronger evidence that such calamities are indeed occurring—faster, in many cases, than they originally thought.

The previous IPCC report, in February, examined the evidence that the globe was actually warming. It called the trend “unequivocal”, and expressed “very high confidence” that it was largely man-made. The new report assesses the likely impact of global warming. It is due to be released on April 6th, after scientists and governments have finished haggling over the wording.

But the underlying research will not change, says Camille Parmesan, a professor at the University of Texas who has vetted part of the report. The findings of the chapter on current impacts alone rests on a review of over 1,000 academic studies, most of them already published—compared with about 100 last time around.

In a paper published in 2003, Professor Parmesan concluded that half of all species were already altering their behaviour or shifting their range in response to global warming. Others have found that some 26% of coral reefs have already died as a result of warming waters, and that the remainder will probably disappear if average water temperatures rise by another degree—along with the fisheries and tourism they sustain. In a synthesis of such studies, the report is likely to conclude that 25% of species face extinction by 2100.

This sort of finding suggests that the effects of global warming will be “non-linear”, says Paul Epstein, a Harvard University professor who has reviewed the entire report. For one thing, most projections of the impact derive from estimates of changes in average temperature. But many of the ill effects hinge on changes in the minimum temperature, which has been rising twice as fast. This trend is particularly strong near the poles, where the climate is changing fastest. Winters no longer get cold enough in many places to kill off different pests and diseases. So noxious species of ants and bees are marching northwards across America, ticks carrying Lyme disease are proliferating in Scandinavia and tropical highlands around the world are witnessing an invasion of mosquitoes carrying malaria, dengue fever and Japanese encephalitis. “The winter is the most wonderful thing that was ever invented for public health,” Dr Epstein says, “and we're losing it.”

Multiple factors will amplify the effects of global warming on agriculture and forestry. Warmer and drier conditions in many places will reduce yields. Meanwhile, pests such as tree-killing beetles and crop-killing fungi will both increase their range and breed more rapidly. And an increasing incidence of extreme weather, be it floods or droughts, will both damage crops directly and nurture species that prey on them.

The report is supposed only to inform policymaking, not to direct it. But the point of the frightening statistics about impending water shortages, epidemics and crop failures, says one of the authors, is to jolt politicians into preparing for the coming afflictions. In other words, the report intends to end the debate between those who think mankind's main effort should be trying to reverse climate change and those who would prefer to concentrate on adapting to its effects. Both strategies, it implies, are urgently needed.

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Transatlantic aviation

Chocks away

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From The Economist print edition

AP

The prospect of more open skies across the Atlantic is shaking up Europe's airlines

“CHICKEN or beef?” If you think the menu on transatlantic flights is limited, try choosing a European airline to fly across the ocean. European airlines are heavily outnumbered by American ones on most transatlantic routes. Passengers at some European airports, such as Barcelona and Brussels, have no choice but to fly with an American airline if they want to go non-stop. Regulatory restrictions on flights between the European Union (EU) and America are largely to blame. Now an “open skies” deal between the two, which will allow any airline from either side of the Atlantic to fly to any intercontinental destination from March 2008, is shaking up Europe's airline industry.

One effect of the agreement, which will be signed in Washington, DC, on April 30th, is to make takeovers more likely. Without an open-skies deal, any airline that bought a rival based in another EU state risked losing that airline's landing rights in America. Accordingly, on March 30th Texas Pacific Group (TPG), a ravenous private-equity firm, made a preliminary approach to buy Iberia, Spain's leading airline, for €3.60 ($4.80) per share. Spain is one of 11 EU states (Britain, Greece, Hungary and Ireland are among the others) not to have an existing bilateral open-skies deal with America. Passengers in these countries are expected to benefit most from liberalisation.

Acquisition talk is not restricted to Spain. The bidding for a controlling stake in Alitalia, Italy's beleaguered national carrier, edged closer to a result on April 2nd with the announcement of a shortlist of three bidders. (TPG is part of one consortium; Aeroflot, Russia's flag carrier, dominates another.) BMI, a British airline, is the subject of much takeover gossip, largely because it holds coveted landing slots at London's Heathrow airport, Europe's primary transatlantic gateway. A host of smaller EU carriers—Austrian Airlines, Scandinavia's SAS and Poland's LOT among them—are also being talked about as potential targets. “I've never seen it as active as it is now,” says Tim Coombs of Aviation Economics, a consultancy.

The open-skies deal is the main reason for all this activity, but not the only one. Deep-pocketed private-equity firms provide a new source of capital, although many analysts are sceptical that they can thrive in such a capital-intensive and cyclical industry. Nor does the open-skies deal mean that takeovers are free of opposition. Iberia's attractions include its strong Latin American route network, which is not covered by the EU-American pact. A non-Spanish buyer would have to make agreements with aviation authorities there and in other parts of the world. And whatever the rules say, European governments, Spain's and Italy's among them, tend to blanch at foreign control of prized national assets. (In Rome Aeroflot's bid for Alitalia has caused alarm in some quarters.)

The fight for Iberia is likely to be a long one. TPG has not yet tabled a formal offer and its mooted price is below the share price, which has soared since the start of the year on speculation of a bid. British Airways

(BA), which already owns 10% of Iberia and has right of first refusal on another 30%, could stymie progress, join forces with TPG, or mount a bid of its own. Lufthansa, another of Europe's big beasts, is watching events in Madrid closely and may yet enter the fray.

If acquisitions prove too costly or complex, carriers can take advantage of the new regime in other ways, such as by adding routes to their schedules. But that depends on getting hold of take-off and landing slots, which are particularly scarce at Heathrow. Just four airlines—BA, Virgin Atlantic, American Airlines and United Airlines—carve up Heathrow's transatlantic slots between them. (Frankfurt divides about half the number of flights to and from America between twice as many carriers; see table below). Anticipating a wave of slot-trading, BA bought 51 weekly slots from BMI last week, consolidating its dominant position at Heathrow.

For its part, Virgin Atlantic is examining the potential for flights to New York from six continental European airports. Virgin is an unusual airline, with a strong brand, a record of taking on an entrenched incumbent and a proven ability to run standalone routes without a network of feeder flights. Other airlines lack its potential to operate outside their home bases, says Peter Morrell of Cranfield University.

The most intriguing possibility is the entry of low-cost carriers into the transatlantic market. The low-cost model is difficult to transfer from short-haul flights to long-haul ones. Long-haul economy fares are already pretty cheap. But there may be room for all-business-class operators to undercut established carriers on denser routes. Some airlines such as Silverjet and MAXjet already offer good fares on transatlantic services from London; the open-skies deal makes it easier for them to extend their services to other business hubs. And at the top end of the market, Lufthansa could expand the all-business service it runs with PrivatAir, a Swiss private-jet operator, to London.

Overactive Atlantic

Scheduled flights to European airports from the US
June 2007

Airport	No. of flights	Airlines	
		US	European
London Heathrow	2,203	2	2
Frankfurt	1,298	6	2
Paris Charles de Gaulle	1,209	6	1
Amsterdam	939	5	2
London Gatwick	796	5	2
Madrid	364	4	2
Dublin	324	4	1

Source: OAG

The full effects of the new open-skies deal will take some time to materialise. Many of the benefits bandied about by the European Commission assume an end to restrictions on foreign investment in EU and American airlines. But America's limits on foreign ownership remain in place, despite the promise of future negotiations, and economic nationalism shows no sign of abating in continental Europe. Even so, the outline is emerging of a more normal industrial landscape, in which loss-making operators consolidate and profitable ones expand.

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Telecom Italia

Plot twist

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From The Economist print edition

AT&T and América Móvil bid for a stake in Italy's telecoms giant

IN OPERA, business and politics, Italy's fondness for melodrama is well known. So on April 1st when Pirelli, an Italian tyre company, said that AT&T, America's biggest telecoms firm, and América Móvil, a Mexican mobile operator, had made an offer for part of its stake in Telecom Italia (TI), Italy's biggest telecoms company, the stage was set for a ripping spectacle. Right on cue, politicians began wailing about capitulation to foreign invaders. Italy's telecommunications minister said he was “very concerned” by the bid.

The plot is tortuous. AT&T and América Móvil are interested in a company called Olimpia, a special-purpose concern set up to hold a stake in TI that was acquired by Pirelli and a group of friends in July 2001. After buying out most of the other shareholders, Pirelli now owns 80% of Olimpia (the Benetton family owns the remaining 20%), which in turn owns 18% of TI. AT&T and América Móvil each want one-third of Olimpia and are ready to grant its two Italian shareholders a put option to sell their remaining shares in a year's time.

Edged out of TI's chairmanship last September, Marco Tronchetti Provera, Pirelli's chairman, must be hoping that this will bring down the final curtain on an adventure that has proved hugely expensive for Pirelli's shareholders, of which he is the largest. The offer from AT&T and América Móvil, which expires at the end of April, gives him a way out of a disastrous deal. If it goes through, Olimpia's Italian shareholders will receive €2.82 ($3.78) per share, which is far below the €4.17 Mr Tronchetti Provera paid almost five years ago, but is much better than Olimpia's share price of €2.14 just before the offer was announced.

Mr Tronchetti Provera's motivation is clear. But what is in it for AT&T and América Móvil? They are offering a premium over the market price, and even if Pirelli sold out completely they would still not have a controlling interest. Mr Tronchetti Provera was able to run the show at TI despite Pirelli's small stake because of his connections in Italy's business world, which no foreign buyer could match.

AT&T says it is not interested in control, and merely wants to use TI's presence in several European countries to improve services for its corporate customers. But given that its swashbuckling Texan boss, Edward Whitacre, has run out of telecoms firms to buy at home, it is widely assumed that AT&T's real aim is to guide and profit from industry consolidation in Europe, as it did in America. Mr Whitacre's long-time ally, Carlos Slim, the boss of América Móvil, is thought to have designs on TI's Brazilian mobile unit. (América Móvil bought TI's Peruvian mobile arm in 2005.) But any attempt to sell off bits of TI would run into political opposition, as Mr Tronchetti Provera found to his cost.

Some insiders think the proposed deal is a ploy to force an Italian bid for Olimpia at a higher price. Mediobanca, a Milanese investment bank, and Assicurazioni Generali, an insurance company based in Trieste, have pre-emption rights, and the deal is subject to these not being exercised. Ever since its privatisation in 1996, TI has been the stage for political, business and financial plotting. The show still promises fresh twists and turns.

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Online music

A change of tune

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EMI decides to embrace unprotected digital music, to Apple's delight

WHEN your back is against the wall, you might as well try something unexpected. That, at least, seems to be the thinking at EMI, the world's third-biggest record company, which on April 2nd said it would start selling digital music online without the “digital rights-management” (DRM) technology normally used to hamper piracy.

EMI certainly needs to do something. Its sales of CDs are plummeting and it issued two profit warnings in the first two months of this year. So of the four big record labels, or majors, it has the least to lose by moving to DRM-free digital downloads. This was something Steve Jobs, the boss of Apple, called for in an essay published on his firm's website in February—even though Apple owns the dominant DRM standard, FairPlay.

Mr Jobs grumbled that he had been forced to introduce FairPlay by the majors, which would not otherwise have sold their music through Apple's iTunes, the leading online music store. As well as limiting piracy, DRM makes it hard to move music from one device to another. This annoys people and hurts sales, Mr Jobs argued. Most music is still sold unprotected, on CDs. By ditching DRM, the majors would gain more in sales than they would lose in piracy, he implied.

EMI is about to put this prediction to the test. It says it will make its digital catalogue available through iTunes and other online music stores without DRM and at a higher audio quality than existing downloads. The new tracks will be sold at a higher price—$1.29 per track rather than iTunes' usual $0.99 (and £0.99 rather than £0.79 in Britain)—justified by the improved quality and greater convenience, say Apple and EMI. Protected tracks will continue to be sold at the lower price.

It is a clever move on EMI's part, but it is even cleverer from Apple's point of view. It should reduce the pressure on the company from some European regulators, who worry that FairPlay is quite the opposite, and “locks in” customers by tightly linking iTunes with Apple's iPod music-players. Furthermore, the majors have long been keen to raise their prices on iTunes. Mr Jobs has always said no. But he has now, in effect, stated his terms: if they abandon DRM, they can charge more. EMI clearly thinks this is a good deal. But will consumers and the other majors?

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Social networking

Joined-up thinking

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Social-networking sites are not just for teenagers. They have business uses too

THE most avid users of social-networking websites may be exhibitionist teenagers, but when it comes to more grown-up use by business people, such sites have a surprisingly long pedigree. LinkedIn, an online network for professionals that signed up its ten-millionth user this week, was launched in 2003, a few months before MySpace, the biggest of the social sites. Consumer adoption of social networking has grabbed most attention since then. But interest in the business uses of the technology is rising.

Many companies are attracted by the marketing opportunities offered by community sites. But the results can be painful. Pizza Hut has a profile on MySpace devoted to a pizza-delivery driver called Ted, who helpfully lets friends in on the chain's latest promotional offers ("Dude, I just heard some scoop from the Hut," ran one recent post). Wal-Mart started up and rapidly closed down a much-derided teenage site called The Hub last year. Reuters hopes to do better with its forthcoming site for those in the financial-services industry.

Social networking has proved to be of greatest value to companies in recruitment. Unlike a simple jobs board, social networks enable members to pass suitable vacancies on to people they know, and to refer potential candidates back to the recruiter. So employers reach not only active jobseekers but also a much larger pool of passive candidates through referrals. LinkedIn has over 350 corporate customers which pay up to $250,000 each to advertise jobs to its expanding network. Having lots of people in a network increases its value in a "super-linear" fashion, says Reid Hoffman, LinkedIn's founder. He says corporate use of his service is now spreading beyond recruiters: hedge funds use it to identify and contact experts, for example.

Jobster, a Seattle-based social-networking site, is entirely devoted to recruitment. Jobseekers can post their own profiles and tag their skills; these tags are then used to match candidates against jobs posted by employers. Unlike on LinkedIn, companies can set up private networks to ensure that the right kinds of people are alerted to openings and that the data they post remain under their control. Information needs to stay behind when a user leaves the company, argues Jason Goldberg, Jobster's founder.

Where LinkedIn emphasises scale and Jobster emphasises specialisation, Visible Path, a start-up based in New York, focuses on the strength of individual relationships. The firm analyses e-mail traffic, calendars and diary entries to identify the strongest relationships that exist inside and outside a company. An obvious application is to generate leads: a salesman can use the service to identify who within his network has the closest links to a prospect, and request an introduction.

Such techniques are also gathering momentum in "knowledge management". IBM recently unveiled a social-software platform called Lotus Connections, due out in the next few weeks, that lets company employees post detailed profiles of themselves, team up on projects and share bookmarks. One manufacturer testing the software is using it to put inexperienced members of its customer-services team in touch with the right engineers. It can also be used to identify in-house experts. Software firms will probably start bundling social features of this kind into all sorts of business software.

To work well in the business world, social networking has to clear some big hurdles. Incentives to participate in a network have to be symmetrical, for one thing. The interests of MySpace members—and of jobseekers and employers—may be aligned, but it is not clear why commission-hungry salespeople would want to share their best leads with colleagues. Limiting the size of the network can reduce its value for companies, yet confidentiality is another obvious concern for companies that invite outsiders into their online communities. "Social networking sounds great in theory, but the business benefits are still unproven," says Paul Jackson of Forrester, a consultancy. But if who you know really does matter more than what you know, it has obvious potential.

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European energy

How not to block a takeover

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Spain's meddling government is the big loser in the battle over Endesa

HAVING fought for more than a year against fierce resistance from Spain's Socialist government, Wulf Bernotat, the boss of E.ON, Germany's biggest energy firm, conceded this week that his plan to buy Endesa, Spain's biggest electricity company, was irrevocably doomed. On April 2nd he announced that he would drop his bid after reaching an agreement with rival bidders to buy some €10 billion ($13.4 billion) of Endesa's assets if their own plan to acquire the firm succeeds.

Under the terms of the deal with Enel, an Italian electricity giant, and Acciona, a Spanish construction and services group, E.ON will get Endesa's European assets outside Spain and some of Enel's Spanish assets, making E.ON the third-biggest electricity company in France and the number four in Spain and Italy. Since Enel, Acciona and SEPI, the state holding company, now own almost 50% of Endesa, E.ON was unlikely to win support from a majority of shareholders. And, Mr Bernotat admitted, he is not interested in a minority stake.

Mr Bernotat made a wise decision. Further legal and regulatory trench warfare between E.ON, Enel and Acciona and Caja Madrid, another big Endesa shareholder, would have meant more uncertainty for investors and a distraction for E.ON's management. “E.ON has turned what had developed into a very messy situation into a semi-victory furthering its own aims,” says Andrew Moulder at CreditSights, a credit-research company.

The outcome for Enel is good too. It will gain a much-needed presence outside its home market and reduce its dependence on the Italian regulator. Enel is paying a high price, but Endesa recently reported stellar results and European energy companies are desirable prey in the run-up to full deregulation of the European Union (EU) energy market this July.

Acciona did even better than Enel. The Spanish company, led by José Manuel Entrecanales, is likely to be rewarded with lucrative state construction contracts for its help in obstructing the Germans. It has the option to sell its Endesa stake to Enel between 2010 and 2017 at a minimum price of €41 per share, rising in line with interest rates. Acciona will also get access to Endesa's renewable-energy operations, which complement its own.

Spain's government comes out the worst from this tortuous saga. It supported a lower bid for Endesa by Gas Natural, a smaller Spanish energy firm, because it wanted to create a national energy champion and keep Endesa in Spanish hands. But Gas Natural dropped its bid a couple of months ago, E.ON will now enter the Spanish market and Endesa's European arm will be broken up. Moreover, the EU is taking legal action against Spain for breaking European takeover rules.

Manuel Conthe, boss of the CNMV, Spain's stockmarket regulator, quit his job on April 2nd in protest at the government's pressure on CNMV to scupper E.ON's bid for Endesa. His authority was consistently undermined by other members of the regulator's board who are close to the government. He will address the Spanish parliament's economic commission next week. The government can expect an uncomfortable return from the holiday weekend.

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Counterfeit cars in China

The sincerest form of flattery

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Foreign carmakers seem unable to stop knock-offs of their cars being made

COPYING in China goes far beyond fake DVDs, watches and handbags. “We can copy everything except your mother,” goes a saying in Shanghai. Soy sauce with fizzy water passed off as Pepsi, fake Cisco network routers (known as “Chisco's”) and mobile phones that look like the latest offerings from Nokia can all be easily found. So, too, can fake blood plasma.

AP

Oh, sorry—I thought this was my BMW

Of all the products to copy, however, a car is surely the most complicated. Cars consist of around 6,000 precisely manufactured components made from a range of different materials. For a car to be cheap, reliable and long-lasting, says conventional industry economics, these parts need to be put together in factories with huge volumes, lots of expensive machinery and many well-trained engineers.

So it came as a surprise when counterfeit cars started to appear in China eight years ago. Early VW look-alikes were soon followed by the infamous Chery QQ. It appeared six months ahead of the car it copied, the Chevy Spark, because a Chinese firm somehow got hold of the blueprints.

What was once a trickle has since become a stream. Toyota's badge, Honda's name (which became “Hongda” for motorcycles) and Nissan's bumpers have all been the subject of legal wrangles. Shuanghuan Automobile got into trouble for copying Audi's famous four-ring logo a few years ago. It then copied the design of Honda's CR-V, called it the SR-V and appears to have won the subsequent legal tussle. Last month the firm won an export licence, and it plans to start shipping another model, the CEO (pictured)—a sport-utility vehicle with a striking resemblance to the BMW X5—to Romania and Italy.

Copying DaimlerChrysler's small two-seater Smart car seems to have become especially popular. In January Shuanghuan launched an electric version, called the Dushi Mini. It followed in the tracks of Shandong Huoyun Electromobile, a firm that makes golf buggies, which launched its own version last year and announced plans to sell the car in Europe for less than half the price of the original. After Daimler threatened to sue, the car was temporarily withdrawn. A spokesman for the Chinese firm said he had been surprised by the way his car resembled the original, explaining that the company had simply copied a toy car. Shandong Huoyun is now redesigning its car in preparation for a relaunch later this year. A third copy of the Smart car was introduced recently by CMEC Suzhou, a maker of electric vehicles.

There are many other examples. Jiangling Motors' Landwind, which spectacularly failed European crash tests last year, is a copy of Opel's Frontera. BYD, a battery-maker, has a concept car that marries the back of a Renault Laguna with the front of a Mercedes CLK and the badge of BMW. Great Wall, a producer of cars with Monty Pythonesque names like Sing, Wingle and Sailor, makes a version of Toyota's Hilux, which it calls the Deer. It is in dispute with Toyota for copying its Scion models and with Fiat for copying

bits of its new Panda.

So far, legal action by foreign firms has proved nearly useless. The many writs, threats, injunctions and court cases have become embroiled in slow-grinding legal machinations, been thrown out on technical grounds or failed because foreign firms had not properly registered their designs. Foreign carmakers are reluctant to make too much of a fuss, lest they be excluded from a fast-growing market or generate unwelcome negative publicity.

The great mystery about these copycat cars is their price. Chinese counterfeiters obviously save on research and development costs, but they still have to buy steel and other materials at market prices. Most of them make cars in very small volumes, so there are no economies of scale. That they can sell these cars for half the price of the originals suggests that something odd is going on. They either do not know their own costs (a distinct possibility), have revolutionised carmaking (highly unlikely) or are being subsidised in some way. For the time being, no one knows.

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Marketing

Building buzz

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The benefits and pitfalls of selling products by word of mouth

WHEN it came to promoting its new video-game console, the Wii, in America, Nintendo recruited a handful of carefully chosen suburban mothers in the hope that they would spread the word among their friends that the Wii was a gaming console the whole family could enjoy together. Nintendo thus became the latest company to use “word-of-mouth” marketing. Nestlé, Sony and Philips have all launched similar campaigns in recent months to promote everything from bottled water to electric toothbrushes. As the power of traditional advertising declines, what was once an experimental marketing approach is becoming more popular.

After all, no form of advertising carries as much weight as an endorsement from a friend. “Amway and Tupperware know you can blend the social and economic to business advantage,” says Walter Carl, a marketing guru at Northeastern University. The difference now, he says, is that the internet can magnify the effect of such endorsements.

The difficulty for marketers is creating the right kind of buzz and learning to control it. Negative views spread just as quickly as positive ones, so if a product has flaws, people will soon find out. And Peter Kim of Forrester, a consultancy, points out that when Microsoft sent laptops loaded with its new Windows Vista software to influential bloggers in an effort to get them to write about it, the resulting online discussion ignored Vista and focused instead on the morality of accepting gifts and the ethics of word-of-mouth marketing. Bad buzz, in short.

BzzAgent, a controversial company based in Boston that is one of the leading exponents of word-of-mouth marketing, operates a network of volunteer “agents” who receive free samples of products in the post. They talk to their friends about them and send back their thoughts. In return, they receive rewards through a points program—an arrangement they are supposed to make clear. This allows a firm to create buzz around a product and to see what kind of word-of-mouth response it generates, which can be useful for subsequent product development and marketing. Last week BzzAgent launched its service in Britain. Dave Balter, BzzAgent's founder, thinks word-of-mouth marketing will become a multi-billion dollar industry. No doubt he tells that to everyone he meets.

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Chocolate

Thinking out of the box

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How African cocoa-growers are moving upstream into chocolate

FUN though it is to pretend that a magic bunny provided the chocolate in your Easter basket, it is much more likely to have been grown by smallholders in West Africa, the region that produces 70% of the world's cocoa. The crop is an important source of income for many countries—the largest producer, Côte d'Ivoire, earns over 20% of its export revenues from cocoa. But although global sales of chocolate amount to some $75 billion a year, growers capture only a tiny fraction of this: around $4 billion a year from the sale of cocoa beans.

Divine Chocolate LTD

Reaching for a bigger share of the market

The money, in short, is in chocolate, not cocoa—and African farmers are not really in a position to expand into chocolate-making. Or are they? Divine Chocolate, founded in Britain in 1998, counts cocoa farmers as its biggest group of shareholders. Kuapa Kokoo, Ghana's largest co-operative, with a membership of 45,000 cocoa growers, owns 45% of Divine and has two seats on its board. The chocolate is made in Germany and sells alongside more familiar chocolate brands, “and not at a super premium price,” says Sophi Tranchell, Divine's boss. The company's sales were £9m ($18m) last year, and this year Divine launched an American affiliate that is one-third owned by Kuapa Kokoo.

This is a startling expansion of growers' purview. Before becoming owners of Divine, most members of Kuapa Kokoo had never tasted chocolate, and many had never even heard of it. But commercial skills honed in local African markets seem applicable to Divine's business and the farmers take a keen interest in their company: the design of Divine's new packaging was a recent topic of conversation in villages across Ghana's cocoa-growing regions. “The farmers are very proud that they own something like this outside Ghana,” says Erica Kyere, Kuapa Kokoo's head of research. “And they are very proud that they employ some white people—that makes them laugh.”

Could this step into the consumer market expose growers to unanticipated risk? Not so far. Divine bought 1,200 tonnes of cocoa from Kuapa Kokoo last year, all of it on Fairtrade terms. But 98% of the co-op's production is sold at commodity prices to Ghana's state-run marketing board. So Kuapa Kokoo's cocoa finds its way to supermarket shelves under many brand names besides Divine's.

Ms Tranchell says Divine's structure has proved its strongest asset, distinguishing it from competitors, attracting high-profile endorsements and mobilising activists to insist that supermarkets sell it. It has also unlocked non-traditional sources of finance. Divine has received investment from charities and development lenders and loan guarantees from aid agencies. Without Kuapa Kokoo, says Ms Tranchell, “it would have been implausible to set up a chocolate company in this very competitive, very mature market with so little money.” (In Britain, Cadbury, Nestlé and Mars account for over 80% of the market.)

Other companies are pursuing similar strategies. Agrofair, a tropical-fruit distributor based in the Netherlands, is half-owned by producers. It in turn owns a part of Oké USA, which markets Fairtrade bananas in America. Pachamama, a federated co-operative of Latin American coffee growers, has just completed its first year roasting coffee in America. With the help of in-kind loans of green coffee from its members, the firm has not had to solicit outside investors at all. And Coffee Pacifica, a coffee importer that is publicly traded in America, is one-third owned by the Papua New Guinea Coffee Growers Federation, which represents 120,000 farmers. In 2006 the firm's sales doubled to almost $3m in America and Europe.

But Anna Laven, a researcher at the University of Amsterdam who has studied Kuapa Kokoo, cautions that this approach is not always possible for producers. Without support and advice from charities, formal organisation and reliable export channels, she says, moving upstream through “functional upgrading” is not feasible for most farmers. Divine, however, is a busy exception to this rule. And this month the Easter bunny may even bring something for the members of Kuapa Kokoo: at a meeting in a few weeks' time Divine's board expects to announce its first-ever dividend.

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Face value

Green revolutionary

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Bob Lane's management philosophy has helped an American firm to reap a record harvest

Landov

"I AM not one of those neo-Malthusians," insists Bob Lane. On the contrary, the boss of Deere believes that technological innovation, not least by his agricultural-equipment firm, will continue to increase the productivity of farmland, thereby enabling the world's ever-growing population to be fed. The past few years have seen important breakthroughs, he says, such as the use of global-positioning satellites to automate ploughing and seeding, reducing wasteful double planting. The latest versions of the famous green John Deere tractor are "sophisticated mobile information factories", says Mr Lane. "They practically drive themselves, while the driver uses the internet to sell corn."

Technology is one of three reasons why Mr Lane is extremely bullish. (So are his investors who, before recent stockmarket wobbles, lifted Deere's share price to over three times what it was when Mr Lane took charge in 2000—and some 90% above its previous all-time peak.) The second source of his optimism is the global boom in agriculture, which is leading to record demand for Deere's products, including combine harvesters, balers and seeders, as well as tractors. The firm also makes equipment for forestry, construction and even lawn care. Corn plantings in America are expected to be at record levels this spring, due to the growing demand for corn-based ethanol biofuel. Yet ironically for a firm headquartered in Moline, Illinois, at the heart of America's subsidy-addicted, protectionist farming industry, the strongest source of demand is abroad, as agriculture becomes more mechanised in prosperous developing countries. As Mr Lane puts it, "There are 2 billion more people able to afford to eat."

Not that global demand is new to Deere. The 170-year-old firm has operated in Europe for over 50 years, and its tractors were exported to Stalin's Soviet Union. A previous boss, the last to come from the founding family, was on the second corporate jet allowed into China after Henry Kissinger's icebreaking meeting with Chairman Mao in 1972. But Deere's business really started to blossom overseas in the 1990s, after Mao's successor, Deng Xiaoping, embraced a version of capitalism, India started to liberalise its economy and Mercosur, the Latin American trade agreement, was signed. Today Deere sells its products in 130 countries and makes them in 16. Half of its workforce is based outside America. Indeed, Deere exports the small, durable tractors it makes in India to America.

Mr Lane is particularly optimistic about demand from Brazil, which is picking up again after some lacklustre growth in the past two years, due to the appreciation of the real. Deere will open a new factory in Brazil this year. In the long run Mr Lane thinks that Brazil is best placed of all the big emerging economies to increase the amount of land put to efficient agricultural use—and not, he insists, as a result of deforestation, as the Amazon is well north of the land he has in mind. "Brazilian society allows the wealthy to own and profit from lots of land," he says, in contrast to China and India, where rules governing land ownership are holding back the move to efficient large-scale farming.

Mr Lane's third reason for optimism comes from the big changes he has made in how Deere is run. These grew out of his own background, in finance, not farming. He grew up in big cities, including Washington, DC, and did his MBA at the University of Chicago. He first seemed destined for a career in banking, and joined First National Bank of Chicago (now part of JPMorgan Chase), which sent him to Germany, where Deere was his main customer. The firm became his employer when it needed someone to improve the financial strength of its dealers, who were suffering badly during the recession of the early 1980s.

After becoming chief financial officer in 1996, Mr Lane became increasingly conscious that the firm was underperforming. It had great products, reflecting the homespun philosophy of its eponymous founder,

who declared: “I will never put my name on a product that does not have in it the best that is in me.” But it was not a great business. Its working practices were old and slow, reflecting a workforce dominated by the UAW, the United Auto Workers. It had too much working capital and too much gear sitting unsold in showrooms. It was, says Mr Lane, “asset-heavy and margin-lean”.

Show me the money

As soon as he became chief executive he set about converting Deere to the pursuit of shareholder value, a philosophy he had embraced at the University of Chicago. All of the firm's 48,000 workers were told that they had to deliver “shareholder value-added”, an “easy-to-understand” measure of profitability Mr Lane devised that involved charging each business unit a cost of capital of 1% of assets a month. Each business unit was required to earn a shareholder value-added profit margin of 20% on average over the business cycle. Financial rewards are linked to this measure, even for the unionised part of the workforce: the UAW ultimately proved open to change.

To get so many people involved in this way is “pretty unique”, says Mr Lane. It seems to be working. Productivity is up by 11% since the new contract took effect. There is far less equipment wasting away at dealerships, thanks to new, lean just-in-time production. The pension-fund shortfall has been fixed. Deere's dividend payout has been doubled and its debt rating has been upgraded. But the big test is whether each business unit can maintain strong performance over an entire business cycle, Mr Lane maintains. “If not, it's just a flash in the pan—it doesn't count,” he says. The average target of a 20% margin is supposed to encompass 28% at the peak of the cycle and no worse than 12% at the trough (compared with zero or worse in the past). The first test may come in the construction division, given the trouble in homebuilding in America, says Mr Lane. Still, if things continue to go well, “perhaps, in the year 2014, we could declare ourselves a great business,” he says.

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IBM and globalisation

Hungry tiger, dancing elephant

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How India is changing IBM's world

Cyrus Deboo

Get article background

LAST June IBM held its annual investors' day in the grounds of the Bangalore Palace, a fake Windsor Castle in India's equivalent of Silicon Valley. Big Blue pulled out all the stops to impress the 50 or so investors and Wall Street analysts who turned up, gathering 10,000 employees to hear speeches by the president of India, the country's leading telecoms entrepreneur and IBM's own boss, Sam Palmisano, all hosted by a Bollywood babe in a red sari.

The annual investors' day is usually held in New York, though it once took place in faraway Boston. By going to Bangalore, the technology giant was sending a strong message. With 53,000 employees, India is now at the core of IBM's strategy. With other big developing countries, including China, Brazil and Russia, it is fast becoming the firm's centre of gravity.

Just three decades earlier, IBM had quit India, which was in the grip of corporatist and nationalistic industrial policies. Only in the early 1990s did it gradually start to return, as the government began to deregulate and reconnect with the world economy. Now, as Mr Palmisano pointed out to his investors in Bangalore, the domestic Indian market has become one of the fastest-growing in the world for IBM, with revenues rising by 40-50% a year, albeit from a very small base. The firm now has more employees in India than in any other country except America.

Mr Palmisano announced that IBM would invest a further $6 billion in India over the coming three years, up from $2 billion in the previous three. That sum does not include any acquisitions of Indian companies. (It has already struck some big deals, notably buying Daksh, an Indian outsourcing company, in 2004.) Some locals wondered how IBM would manage to spend all that money. But booming demand is pulling wages higher in India and costly training is now needed to lure workers being courted by other companies.

Rethinking the multinational

IBM's Indian adventure highlights three overlapping themes. Emerging economies increasingly count as a threat to established global firms, as well as an opportunity. Indian services firms such as Infosys and Wipro are starting to give IBM—and its old rivals, Accenture, EDS and Hewlett-Packard—a run for their money. As globalisation accelerates, this is forging a new vision of what it is to be a successful multinational company. Last, regardless of how well Big Blue fares, its strategy for growth has suffered because of those first two. The big, career-threatening question facing Mr Palmisano—and the reason other multinational companies will want to study IBM closely—is whether he can find a new way to realise

the growth that his shareholders demand.

In a speech last year at INSEAD business school in France, Mr Palmisano set IBM's Indian move in the context of the modern multinational company. This, he said, had passed through three phases. First was the 19th-century “international model”, whereby firms were based in their home country, but sold goods through overseas sales offices. Then came the classic multinational firm, in which the parent company created smaller versions of itself in countries around the world. This was how Mr Palmisano found IBM when he joined it in 1973.

The third model, argues Mr Palmisano, the IBM he is now building, is the “globally integrated enterprise”. Rather than have a parent with lots of Mini-Mes around the world, such a firm shapes its strategy, management and operations as a single global entity. It puts people and jobs anywhere in the world “based on the right cost, the right skills and the right business environment. And it integrates those operations horizontally and globally.” In this approach, “work flows to the places where it will be done best”, that is, most efficiently and to the highest quality. The forces behind this “are irresistible”, he says. “The genie's out of the bottle and there's no stopping it.”

IBM's big investment in India is not just about getting cheaper workers. If it were, IBM might have been in and out of India almost as fast as Apple, which closed its Bangalore offshoring centre last year after about three months, apparently because rising labour costs meant that the expected savings failed to materialise. IBM is doing cutting-edge research and development in India and writing valuable software, as well as running low-cost call centres. One reason for holding the investors' day in Bangalore, says Mr Palmisano, was to show Wall Street analysts that “places like India do not simply mean ‘cheap labour’.”

Places like India: the other message that Mr Palmisano was keen to get across was the part other emerging economies are playing in remaking IBM—which he admits will take many years. Thus, IBM's financing back office is in Rio De Janeiro. It has call centres round the world. Last April, when Bangalore was paralysed by rioting over the death of Rajkumar, a movie star, IBM shifted data-centre operations to its facilities in Brazil and Colorado.

IBM used to have separate supply chains in different markets, now it has one for the whole company. Reflecting the growing importance of China, John Paterson, IBM's chief procurement officer, moved to Shenzen in October. He is the first head of a company-wide function to base himself outside America, though other top IBM executives may soon follow. Asia already accounts for one-third of IBM's $40 billion purchasing budget. Mr Paterson felt he needed to raise the quality of IBM's purchasing staff in the region and to develop its base of suppliers.

Another case of the Big Blues

Yet when history judges Mr Palmisano's time at the helm, IBM's Indian strategy may prove far more important than what the firm does elsewhere in the developing world. Becoming a globally integrated enterprise is necessary for its success, but not sufficient. Cutting costs is crucial—and globalising the supply chain has saved IBM about $8 billion a year. But to grow in the newly integrated world, as Mr Palmisano puts it, the burning question becomes “what will cause work to move to me? On what basis will I differentiate and compete?”

So as well as realising “global integration”—no easy task in a mature company with 330,000 staff in 170 countries—IBM will also need the right products. It is here that India poses a special threat, not least because of its prowling, hungry home-grown tiger companies.

When Mr Palmisano became IBM's boss in 2002, the firm seemed to have a perfectly good strategy. It was the legacy of the famous turnaround of IBM engineered by the previous boss, Lou Gerstner, and described in his book, “Who Says Elephants Can't Dance?”.

When Mr Gerstner took the helm in 1993, IBM was in deep trouble, on the verge of selling itself off in pieces. In particular, the legendary mainframe business was perceived to be in terminal decline, while the firm's hardware (personal computers and the like) were rapidly becoming commodities. Mr Gerstner stabilised the mainframe business, which today is expected to see modest growth thanks to greater openness to independent software vendors, clever pricing and demand from emerging economies, including India. More fundamentally, he shifted IBM's focus from selling hardware to the fast-growing IT-services market, including outsourcing. In 1992 hardware generated around 55% of IBM's revenues, and services 25%. By 2001 hardware was down to about 30% and services up to 42%.

Meanwhile, IBM's share price rose from $11 in March 1993 to $125 in December 2001—a price it has never since matched. Last July it fell below $74, although it rallied after that—perhaps as the message that the firm is taking India seriously started to get through. Having briefly touched $100, it slipped back to $93 during the recent market wobbles. That is not the sort of performance to make a boss feel secure in his job, especially in this era of trigger-happy boards. (Though, if rumours are to be believed, a record-breaking bid from private equity may yet rescue Mr Palmisano's reputation.)

When IBM bought the consulting arm of PricewaterhouseCoopers in 2002, it seemed like the final piece of the jigsaw needed to complete the services strategy. The consultants' industrial expertise and their relationships at the top of all manner of industries would help IBM move upmarket and lead to the more lucrative work of solving complex business problems. Rapid growth seemingly beckoned. In fact, IBM's services business suffered at the lower end of the market, owing not least to unexpectedly strong competition from Indian IT firms, many of which first got started in the IT business thanks to the vacuum created when IBM quit the country.

Cyrus Deboo

Even now, the Indian firms are a limited form of competition. The biggest, Infosys, has a stockmarket value of only $28 billion, compared with IBM's $144 billion. IBM also has lucrative businesses the Indian firms can only dream of. These include the lease-like revenues from licences relating to its mainframe computers and its pioneering “multi-core” semiconductors, which feature in (among other things) the three leading video-games consoles.

Yet corporate IT departments are continually being pressed to cut costs. The Indian suppliers' credibility with international firms was boosted by their sterling work in inoculating networks against the Y2K computer bug. Indian firms have started to win big outsourcing contracts, some of which IBM had counted on as its own. Just as troubling for IBM has been the effect on contracts that the company managed to win, many of which were at far lower prices than they would have been without an Indian alternative. The prospect of falling margins on services contracts prompted IBM—and the other big multinational suppliers—to pledge a large amount of money to India.

Even IBM's Indian rivals concede that so far, despite teething troubles, the American giant has done well—certainly better than Accenture and EDS. If nothing else, the company has proved that you do not have to be Indian to manage a low-cost outsourcing business in India. Under IBM's ownership, the Indian workforce of Daksh, which runs call centres and does other basic “business process outsourcing”, has grown from 6,000 in April 2004 to over 20,000.

Cheap and cheerful

According to Pavan Vaish, its boss, IBM has largely allowed Daksh to carry on as it was, rather than imposing on it the IBM way, as might have happened in the past. “They studied the way we did business and said we don't have to do everything here the way we run our other businesses. Certain core functions were added, such as finance, but the rest was left alone.” Indeed, IBM is now trying to export the Daksh way to other parts of the empire, such as its call centre in Okinawa.

At first IBM paid too much for Indian workers, adding heat to an already sizzling labour market. Now it is trying to attract and retain talent by offering training and a career path that leads up the corporate ladder. (IBM's Indian rivals counter by telling potential recruits that they offer better training and quicker career progression than an American company run out of Armonk, New York.)

This is paying off. According to Sanford Bernstein, a research firm, IBM has already increased profit margins from its services business, thanks to the cost reductions it has made in India.

Yet these are early days in the evolution of the Indian outsourcing industry. IBM will probably have to cope with two other new trends. The first is the decline in “mega deals”, outsourcing contracts that are worth more than $1 billion over several years. These were common in the first wave of outsourcing a few years ago, but many are now due for renewal. Some companies are said to feel they ceded too much control to the outsourcing firms last time and now plan to manage the work more carefully, not least by

parcelling business out to several firms. Contracts that would have gone to IBM alone may now be shared by IBM and, say, Infosys.

Nobody is really sure how significant this shift will be. After a slow year for mega deals, IBM signed three in the final quarter of last year—with the German army, Vodafone and the state of Indiana. But the consensus in the industry is that deals will be split, which is bad for IBM and good for its rivals.

The second big change is that Indian firms are rapidly moving upmarket. IBM's great strength is in offering total outsourcing. This includes everything from simple call centres to remote infrastructure management (over 40,000 servers outside India are managed from IBM's Bangalore operations) to "business transformation", in which IBM re-engineers and manages a company's entire operation, including its staff. The company has made much of one such deal, to run the back end of Bharti AirTel, India's leading mobile phone firm, whose boss spoke at IBM's investors' day.

But the Indian firms are rapidly acquiring the skills and connections they need to compete for these deals. Infosys now has a consulting operation. Its smoothly effective boss, Nandan Nilekani, spends time building the sort of friendships with other chief executives that IBM bosses have had for decades and regard as crucial in winning contracts.

IBM and the other multinationals are becoming increasingly nervous about the fifth-biggest Indian outsourcer, HCL Technologies. It is leaving the world's 200 biggest firms to the likes of IBM, and instead going after the next 800, which HCL's boss, Vineet Nayar, says tend to feel a bit neglected by the big traditional outsourcers. Largely unnoticed, HCL has won several contracts worth $300m-700m for infrastructure management and business transformation. In a recent deal with Cisco, HCL will take on employees and risk from the American hardware company, using a contract that forsakes a fixed fee in favour of sharing revenue. According to IDC, a technology-research firm, HCL "may very well be one of the contenders to lead the IT services world of the very near future".

As the Indian tigers improve, the pressure on IBM to innovate is bound to grow. That may get harder, which is why there is speculation that it will buy one of those Indian tigers. So far, adding jobs in India has not meant shedding many jobs in costlier places, such as America. And innovating may be harder when the corporate headquarters is in cosy New York rather than in the heat of the action in India. IBM's chief procurement officer may be in China, but no one who reports directly to Mr Palmisano is based outside America. Yet.

Play it again, Sam

Hoping to get IBM's share price up, Mr Palmisano has promised double-digit growth in earnings per share over the long term. That is a tall order, and feasible thanks only to IBM's progress in other businesses, which has partly offset the difficulties in services. Huge savings have come as the company has broken down the barriers between its various operations. It has bought vast quantities of its own shares. It has continued to sell low-margin commodity businesses, such as hardware. In these businesses, IBM does not feel threatened by the rise of domestic competitors in countries such as China. On the contrary, it was delighted to sell one of them to Lenovo, which bought IBM's personal computer business in 2005.

Cyrus Deboo

But the future gains from selling low-margin hardware businesses may be limited. That puts a greater burden on IBM's high-margin software business. In the past four years it has spent about $16 billion on over 50 acquisitions, mostly small software firms that have thrived after having been stitched into the company. It has done this so well that (the growth story in services having become a little hollow) IBM is now claiming to be the next great software company. In 2006 software accounted for 20% of its revenue and for 40% of profits, up from 35% two years earlier. Much of the growth is in "middleware", software that helps all a firm's different software to run together.

But the strategy on which IBM is pinning its hopes is more complex than just software or services. The company is betting that it can produce synergies from the three business lines—hardware, services, software—in which, unlike any of its competitors, IBM is a global leader. That means prising the firm's employees out of their traditional product-driven business "silos" and getting them to work together. This strategy is articulated in the IBM way, ie, using plenty of jargon: "service

oriented architecture", "solutions" and so on. Rather than simply push products at customers, the new approach means sorting out customers' difficulties using whatever mix of services, software and hardware leads to the best outcome.

One important part of this is especially relevant to the threat posed by India. IBM is trying to write software that automates many of the activities companies now outsource. It has picked 17 industries, two of which, health care and insurance, are being primarily addressed by software engineers in India. Examples include software developed in IBM's research lab in Bangalore that tests the language skills of applicants for call-centre jobs, greatly reducing recruitment costs; and a mortgage-origination business, launched last week, which is designed to automate lending by building on technology and software from two recent acquisitions, Filenet and Palisades Technology Partners. When processes are automated in software, they become an "asset", the firm says, in the sense that programs generate licence fees and can be reused with other customers. This solves at a stroke the difficulty matching the Indians in labour-intensive outsourcing.

Analysts are divided about how successful IBM's overall strategy will be. An IBM executive complains that most of the analysts who follow the company are "legacy hardware guys who don't get software". One who does is Barry Rubinstein of IDC. He suspects that the Indian firms are too focused on short-term profits to make the best long-term bets, which may well include automation. "Things may look very different in five to seven years' time, and much better for IBM," he says.

In the meantime, the big Indian IT firms are delighted that IBM is taking them seriously. "Palmisano has authenticated our model," says the boss of one of them. "We have convinced the global investment community that our model is the future," he says. That keeps his share price rising and raises questions about IBM's value. Automation, among other things, may be a good long-run strategy, but in the short term IBM has to keep growing and get its share price up. "Palmisano's problem is timing," he concludes, with a smile. And to dance well, you have to get the timing right, as every elephant knows.

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Political-risk insurance

Of coups and coverage

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Political turmoil is costly. Unless you are fully insured

Satoshi Kambayashi

WAR, riots, coups, embargoes—the sort of political upheaval that once occupied statesmen, mercenaries and spies is these days also the concern of less swashbuckling figures in the world of finance. A band of corporate-risk officers, export managers and international bankers are looking to insurers to shield them from the financial consequences of political turmoil around the world.

Such cover would once have appealed only to the most intrepid enterprises: oil firms prospecting in the Niger Delta, or mining operations in dodgy corners of central Asia. But as companies push their business into ever more remote locales, so they have sought protection against more exotic risks. The dangers of politics now hang over companies as diverse as fruit growers in Latin America, film producers in Fiji and bankers in Dubai.

The Berne Union, a group that includes the 30 biggest public and private insurers in the field, says its members have over $113 billion in policies outstanding. Last year they wrote more than $44 billion in coverage, up from $37 billion in 2005.

So where do the risks lie? The answer bobs and drifts with the political currents. But there are also some fixed landmarks: Afghanistan, Equatorial Guinea, Tajikistan, Syria and Iraq are at the top of a risk league-table published recently by Aon, a big broker. It is no shock to find Colombia, Angola and Venezuela on the next tier either. More surprising perhaps are the potential dangers ascribed to Vietnam, Panama and Ukraine. But when such risks cease to be surprising—ie, when a crisis suddenly erupts—it is often too late to get cover. “The phone starts ringing as soon as it has happened,” sighs Charles Keville of Aon's crisis-management group.

Traditionally, the insurance on offer has covered political violence (war, insurrection and such), nationalisation and expropriation of assets and currency inconvertibility. These threats can undercut entire investment projects—a hotel may be vacated in the wake of a military coup, for example—as well as specific contractual agreements, such as a big export order. The benefit of political-risk cover is most evident when firms have long-term commitments in emerging markets: in project-finance loans, for instance, risk guarantees can reduce costs.

In recent years, however, the industry has experienced upheavals of its own. Three in particular: innovation in offerings, a greater role for private insurers, and a narrower focus for some of the public insurers that used to bestride the field.

Innovation has been fostered partly by clients seeking new forms of cover. Banks, for instance, now frequently seek insurance against governments or foreign entities failing to honour contracts for political reasons. They may have made a big loan to an infrastructure project, which the government might seek to expropriate, for example. Such cover accounts for half the political-risk policies written by some underwriters. Sovereign Risk Insurance, a Bermuda-based specialist insurer founded in 1997, is in 114 emerging markets and is particularly active in this area. One of its contracts is a seven-year, $95m policy backing a foreign bank's structured-finance business in Brazil.

Fresh products are also the result of new, private suppliers. In addition to Sovereign, a clutch of specialist underwriters has emerged in the past decade. They join more established insurers like AIG, Chubb and a cluster of syndicates at Lloyd's of London. Private providers now account for about half of a market that used to be dominated by big public underwriters, such as national export-development agencies and the World Bank's Multilateral Investment Guarantee Agency (MIGA).

As the private sector has grown, these public underwriters have found new roles for themselves, either by choice or necessity. Although some of the national agencies, Japan's, for example, are free to set low prices and write vast amounts of insurance cover, others are required to be self-supporting. This is the case for the Overseas Private Development Corporation (OPIC), an American agency. OPIC has cut back its role in big insurance projects in recent years, deferring to the private sector. It now focuses on investments in emerging markets that fit America's foreign-policy priorities.

MIGA, too, is trying to plug the gaps in the market left by private insurers. It attends to countries like Burundi or Sierra Leone that do not attract much private interest. It has also insured a number of “South-South” projects, such as South African investments in sub-Saharan Africa.

Narrower than they were, the public insurer is far from obsolete. Public providers of political-risk cover have some notable advantages over private insurers. Government connections make a difference when things go pear-shaped: a MIGA official says that of more than 850 contracts written in the past two decades (worth more than $16 billion), it has had to pay only three claims. Most of the 10-15 disputes it sees each year are resolved between the insured party and the host government.

Public insurers can also typically write longer contracts than their private counterparts dare to offer. Such contracts deprive insurers of the opportunity to recalibrate risks. Unlike the underwriters who declined to renew annual homeowners' policies in hurricane-prone Florida, political-risk insurers are locked into agreements for up to 20 years. If things go wrong over a long period, their pay-outs could be huge.

Between them, public and private insurers now rub shoulders in a field that was once rather lonely. In a world of abundant liquidity, they must also compete with investors of all kinds who, in their hunger for yield, are willing to take a bet on politically vulnerable enterprises. Many companies involved in project-finance deals can easily borrow enough to self-insure their projects rather than buying insurance elsewhere. Paradoxically, the danger facing those who insure against political peril is that the appetite for risk in financial markets is so strong.

And yet some customer needs remain unmet. Foremost among these is worry about dramatic falls in currencies. Although derivatives can hedge such risks several years ahead, they cannot offer the long-term cover many investors require. Several learned this to their cost when Argentina's currency was devalued in 2002. The policies they thought would cover their losses proved useless. Whether you are insuring against a breakdown of the social fabric or a breakdown in your car, you should always read the fine print.

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Buttonwood

Soros on the cheap

Apr 4th 2007
From The Economist print edition

Building a better currency model

BETTING on currencies may have helped George Soros get rich, but for most people it is a mug's game. Forecasters often get the direction of foreign-exchange movements wrong, never mind their magnitude. But there is evidence that investing in currencies can add value to a portfolio, even though it may seem to be a zero-sum game (because as one currency rises, another must fall).

The chance of earning an extra return arises thanks to the presence in the market of what economists might call “non-profit-maximising” participants—in other words, people with motives other than the best currency rate. Tourists are an obvious example: they tend to buy and sell during (or just before) their holidays and have to take exchange rates as they find them. Portfolio investors usually buy foreign assets because they like an individual security, not on the basis of expected currency movements.

Central banks are probably the classic case. They intervene in the foreign-exchange markets to serve political or economic objectives. If those objectives are unsustainable, as were Britain's efforts to stay in the European exchange-rate mechanism (ERM) in 1992, then the central banks are sitting ducks. Currency specialists say the existence of this “dumb money” makes it possible for others to earn excess returns.

Furthermore, these returns do not appear to be correlated with the other main asset classes of shares and bonds. A currency fund can thus be a useful source of diversification for the average investor's portfolio, improving the trade-off between risk and reward.

But that still leaves investors with the problem of knowing which way currencies are going to move. They can rely on the services of a fund manager, but the fees might outweigh the extra returns.

One answer is to find a model that exploits the recurring anomalies to be found in currency markets. The costs should be low and the approach should avoid the fallible judgments that human managers are prone to make. Both Deutsche Bank and Merrill Lynch have recently launched such products.

Two factors seem ripe for exploitation. The first is the notorious “carry trade”, in which investors sell or borrow low-yielding currencies and buy high-yielders. In theory, this should not work, because high interest rates on a currency should compensate investors for the risk of depreciation. In practice, however, owning high-yield currencies has been a profitable medium-term strategy.

The second factor is momentum. Currencies seem to fall in and out of favour: the yen is as out of fashion now as it was popular in the 1990s. As a result, once a currency has begun to rise, it may keep going for some time. Investors can jump on the bandwagon.

Both Deutsche and Merrill include carry and momentum in their models. Deutsche says that, since 1980, a carry strategy has earned an average annual excess return of 4.9%, whereas momentum has earned 3% (based on buying the top three currencies from the G10 leading industrial countries and selling the bottom three). However, each strategy has had its bad moments. Both suffered horribly in the early 1990s, when the ERM broke down.

Adding a third factor may help. Deutsche Bank uses valuation, based on purchasing-power parity theory, which suggests that, over time, exchange rates should adjust in line with tradable-goods inflation in the respective countries. Although this appears to clash with the carry trade (high-inflation countries should have high interest rates), it both delivers a positive annual excess return and adds stability to the model.

Overall, Deutsche says, its model, dubbed the currency-returns index, has provided an excess return of 4% since 1980, with a maximum loss of 11%. Better still, these returns had minimal correlation with shares and a negative one with bonds (when bond returns went down, currency returns tended to go up).

The problem with all such exercises is that producing great returns by analysing past data is much easier than repeating the trick with real money. Nevertheless, such models will at least compete with specialist currency funds. Indeed, Merrill's, called the FX clone, specifically weights its portfolios on the basis of currency managers' bets. And because central banks and tourists will always be around and currency markets are very liquid, this may be one area where additional capital will not automatically drive down returns.

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Payment cards

Cashiered

Apr 4th 2007 | NEW YORK
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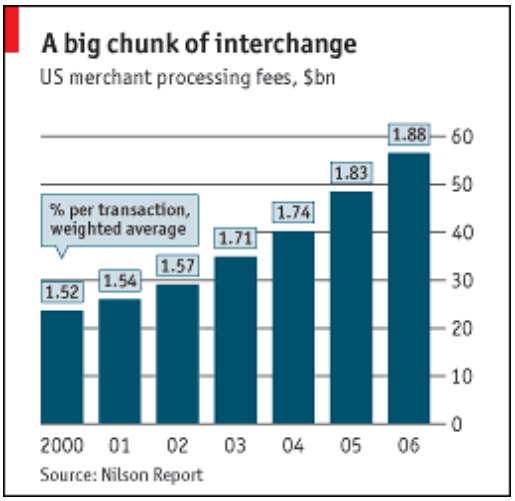
The downsides of paying with plastic

WHEN Monopoly, the popular board game, replaced its play money with phoney debit cards last summer, it was a sign of the times. But cash still boasts two advantages over plastic. It leaves no trace: the only personal information a dollar bill conveys is the signature of the Treasury secretary. And the national mint does not charge retailers fees to use its notes.

Last week TJX Companies, which owns several chains of bargain-clothing stores, revealed in a filing to the Securities and Exchange Commission that hackers had penetrated its computer systems, stealing information from at least 45.7m debit and credit cards—probably the biggest ever breach of card security. Some of the stolen customer information dated as far back as 2003, from customers as far away as Hong Kong.

Hackers are not the only ones making a killing from plastic. Every time a customer uses a card, retailers must pay an “interchange” fee. This levy is, in effect, a toll for using the payment networks of Visa, MasterCard and others, which is mostly paid to the banks that issue such cards.

According to *Nilson Report*, a trade magazine, American merchants shelled out $56 billion in payment-card fees last year (see chart), over twice the amount they paid five years earlier. Small retailers feel the pinch the most. Celent, a research outfit, estimates that a small grocer with $1m in sales has seen interchange costs jump by 16% a year on average since 2000.



Taking aim at both of these flaws is GratisCard, a new payments system backed by Steve Case, the founder of AOL, launched later this month. The card, which can function as a debit, credit or prepaid card, is entirely anonymous. A thief who steals one will not find a customer's name or account number on it, nor will a hacker find anything to decode in the card's magnetic strip. Instead, customer data are stored in GratisCard's data centre in Florida and sent to the till only as needed.

GratisCard will be the first to use the internet to zip data among merchants and banks. This allows it to side-step the big payment networks and their stiff interchange fees. Merchants that accept GratisCard simply pay a processing fee capped at 0.5% of a transaction.

Others are also hoping to profit from undercutting interchange fees. A handful of companies have sprung up offering payment cards that pull money directly from a customer's bank account through the “automated clearinghouse” network, which was originally set up to settle cheque payments and now also handles electronic ones. One such outfit, Tempo Payments, charges a fee of 15 cents or less per transaction. Another, Pay By Touch, lets a customer pay from his bank account with an imprint of his finger. Almost half the accounts at PayPal, the popular online payments service, are financed directly from customers' bank accounts.

Only PayPal operates on any scale. The rest face an uphill battle. Low interchange fees may lure merchants, but convincing customers to add another card to their overstuffed wallets will be hard. Meanwhile merchants are taking matters into their own hands. In America they are part of a class-action lawsuit accusing Visa, MasterCard and a bunch of banks of collusion in setting excessive interchange rates. Politicians have jumped in too. Last month the Senate held hearings on interchange fees, among other alleged sins.

Interchange fees are also under fire abroad. The European Union already regulates such fees on cross-

border transactions. In a report released in January, it found that interchange fees in some European countries raised competitive “concerns”. Australia has capped interchange fees at 0.5%, although stores have yet to pass the savings on to consumers.

Gwenn Bézard of Aite Group, a consultancy, believes merchants are “barking up the wrong tree”, at least in America. Unlike other countries, it is blessed with a multitude of payment networks: the four big credit-card networks plus about 25 debit networks. They compete fiercely with each other, not to persuade merchants to accept their cards, but to convince banks to issue them. It is this competition that has driven up the fees they pay to banks. Whatever game the card companies are playing, it is not monopoly.

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United Commercial Bank

Diaspora finance

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For once, a foreign bank may have bought wisely in China

ENTICED by a vast market yet driven mad by local regulators, many of the world's best banks lose their reason in China. They forget the self-control that has made them successful and buy minority stakes in Chinese institutions with disastrous operating records. Even this folly takes determination. Citigroup underwent more than a year of painful discussions to acquire one-fifth of Guangdong Development Bank along with less than total managerial control. It got that much only because the bank was a basket case.

Then there is United Commercial Bank. On March 27th this small San Francisco institution said it had concluded negotiations to become the sole owner of the Business Development Bank, of Shanghai. The price, $205m, was high—2.7 times book value—but in line with other bank investments in China. The striking thing was the full control United Commercial has won, especially given the bank's good health: it has just two non-performing loans. Two weeks ago few people outside Shanghai knew the Business Development Bank existed. Now more than a few are asking how any foreign bank could have pulled off such a deal.

The Business Development Bank owes its existence to a quirk in Chinese law. It was established in 1992 as China's first foreign-owned bank under a special provision to assist in the importing of food, mainly chickens and shrimp, from Thailand. It then evolved into a commercial bank serving small and medium-sized manufacturers and exporters.

Quirks in China have a way of disappearing. Late last year, China, as part of the terms of its entry to the World Trade Organisation, agreed to let foreign banks into the country, subject to a long list of conditions. One of the more explicit is that foreign owners must have assets of $10 billion. Three of the Business Development Bank's owners are Thai conglomerates with no other bank assets; a fourth is a German development bank with no interest in full control. In a stroke of a pen, a law allowing foreign ownership of Chinese banks made the oldest foreign-owned bank unholdable by its foreign owners.

In its own way, United Commercial is an example of the quirks in America's own banking system, which has a few leviathans along with thousands of smaller fry. Of the foreign banks sniffing around China, it is certainly one of the smallest, with only $10.4 billion in assets. But sometimes a tiddler stands out from the rest.

United Commercial's origins were humble, as a savings bank and mortgage lender for the Chinese in San Francisco. In 1998, under a new chief executive, Tommy Wu, it refocused on the area's many Chinese entrepreneurs. Big companies have plenty of banks willing to provide letters of credit or finance for accounts receivable. For small and medium-sized firms such services are hard to find.

The bank expanded first to southern California, then to New York, Atlanta, Boston, Houston and Seattle. Profits in the past five years have grown by 27% on average. A branch in Hong Kong, opened only three years ago, now has $1 billion in deposits. An office in Taiwan will soon be upgraded and a new one established in Vietnam. Then the structure will be complete. The share price has risen more than tenfold since the change of strategy.

In the past two years, as groundwork for the creation of a new branch, Mr Wu travelled to China monthly, making presentations to regulators and cultivating the overseas offices of existing clients. In China the big international banks focus on the world's biggest companies; large Chinese banks focus on large state-controlled companies. That leaves many smaller companies underserved. So after the new bank law went into effect, Mr Wu had a call from a well-informed banker at Macquarie, an Australian bank, asking whether he was interested in Business Development Bank. As soon as he put down the phone, Mr Wu got on a plane. Merely fulfilling the complex application procedure to open up on its own could take a bank five years, Mr Wu says. This deal should close by the end of 2007.

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Brazil's stock exchange

A second look

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From The Economist print edition

Lula, champion of equality, has been good for equities

WHEN Luiz Inácio Lula da Silva led Brazilian workers in a demonstration in front of the São Paulo stock exchange a decade ago, angry exchange members marched into the street to confront the fiery union leader. Three months into Lula's second term as president, though, financial leaders admit their early fears were overblown. “Surprisingly, we have never had a government so committed to the capital markets as we have right now,” says Gilberto Mifano, chief executive of the exchange.

Just as Lula has won over the traders, so the São Paulo exchange, known as Bovespa, has calmed the doubts of international investors in recent years. Long buffeted by rampant inflation, soaring interest rates and extreme volatility, share prices on Latin America's largest stockmarket have doubled in the past three years, according to the leading market index. As an expression of confidence in the future, members will vote on a plan to float the exchange itself later this year.

If it does offer itself to the public, Bovespa will have some impressive numbers to tout. Market capitalisation rose by 37% in 2006, to 1.54 trillion reais ($723 billion). Initial public offerings (IPOs), non-existent for years, began to rise in 2004 and jumped to 26 last year, more than any other emerging-market exchange except Shanghai and Hong Kong. In the first two months of this year, Bovespa surpassed Hong Kong in total capital raised.

What lies behind these figures? Despite the anti-business vitriol of Latin American leaders like Venezuela's Hugo Chávez, foreign investors are learning to distinguish Brazil from its more radical neighbours. Foreigners now account for about 35% of trading on Bovespa, up from 25% two years ago. They snapped up 75% of recent IPOs.

Outside investors have benefited as the grip of insiders has loosened. After a rocky start, a new market launched in 2000—the Novo Mercado—has led to greater shareholder democracy, ending an era of old-style corporate governance in which investors with small financial stakes monopolised voting rights in companies.

The economy is in better shape too, thanks to tamer inflation and lower interest rates. A country prone to sharp devaluations of the currency must now cope with the real's strength: it has gained about 4.2% against the dollar this year.

During the turbulent 1990s, Brazilian firms sought to float on exchanges abroad, calculating that a foreign listing would give them access to deeper pools of money and an implicit stamp of approval in the eyes of investors. Despite Brazil's progress since then, many big firms still feel the need to list elsewhere. Mr Mifano jokes that the New York Stock Exchange is Brazil's second biggest market, with 32 Brazilian firms listed. In 2002 Brazil's Congress voted to amend the constitution to exempt share trades from a widespread tax on transactions. This has helped Bovespa lure back some of the trades it lost as Brazilian companies listed abroad. But “liquidity is very easy to lose and not so easy to recover,” notes Mr Mifano.

Brazil's exchange must also overcome scepticism on the buyer's side of the market. Individual Brazilians lack an equity culture. The vast majority, hobbled by poverty, will never own stocks, but many others with the means to do so also remain wary. They remember the days when the exchange had a reputation as a casino for the elite. Mr Mifano is eager to attract middle-class investors, but realistic about the difficulties. “As Brazilians, we forgot how and why to invest in equities,” he says.

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Economics focus

Smaller shares, bigger slices

Apr 5th 2007
From The Economist print edition

Has globalisation hurt workers in rich economies? The IMF wades in

THE world economy has been growing at its fastest for a generation. Money, goods and ideas move around the globe more freely than they have for at least a century—maybe more than ever, when you think of modern communication and China's re-emergence. So why all the gripes and grumbles? The problem, as some see it, is that workers in rich countries are not getting a fair whack. Their share of income has been shrinking for the past quarter of a century, most markedly in continental Europe and Japan. The new order may be just dandy for capitalists, but not for those who toil by hand or brain.

In its semi-annual *World Economic Outlook*, the IMF examines how trade, technology and immigration have stitched the world's labour markets together at an astonishing rate, leaving rich-country workers unsure of where they stand. Weighting each country's workforce by its ratio of exports to GDP, the IMF estimates that global labour supply has in effect risen fourfold since 1980 as China, India and once-communist countries have opened up. Most of the extra workers got no further than secondary school (although the relative supply of graduates has gone up by 50%). With this surge of competition, you might expect labour's share of the pie to shrink.

In some cases, the competition is direct: workers cross borders to take jobs in rich countries. Although unwelcome in many places, immigrants' share of the workforce has risen a lot in some European countries (notably Britain, Germany and Italy) and in America, where it is close to 15%. The more important channel, though, is trade: largely because of China, developing countries' share of rich countries' manufacturing imports has doubled since the early 1990s. “Offshoring”—shifting production, especially of intermediate goods and some services, abroad—has been on the rise, although the IMF notes that it has grown more slowly than total trade.

Globalisation is not the only possible reason why labour's share has shrunk. New technologies have probably taken a few degrees off the workers' slice too. Several countries have also fiddled with labour-market regulation, pushing the wage share one way or the other.

The IMF has made perhaps the most valiant attempt so far to weigh these competing explanations. It is impossible to disentangle technology and globalisation entirely: advances in telecommunications, for example, are what enable Indian software engineers and call-centre workers to serve customers in America and Europe. That caveat noted, the fund's results, for 18 countries split into four groups, are shown in the chart.

It finds that both technological change and the globalisation of labour markets have depressed labour's share in all four groups. For the 18 countries as a whole, reckons the IMF, technology has mattered more. However, there are marked differences among them.

Technological change had the biggest effect in Europe and Japan. In Anglo-Saxon countries (America, Australia, Britain and Canada) it was much smaller. In America, indeed, technology seems to have raised labour's share. The fund thinks this may reflect America's lead in using information technology. When a country first exploits IT, labour's share of the national cake goes down. As time goes by, though, workers adjust and learn. Once their skills match the technology better, their productivity and their share go up.

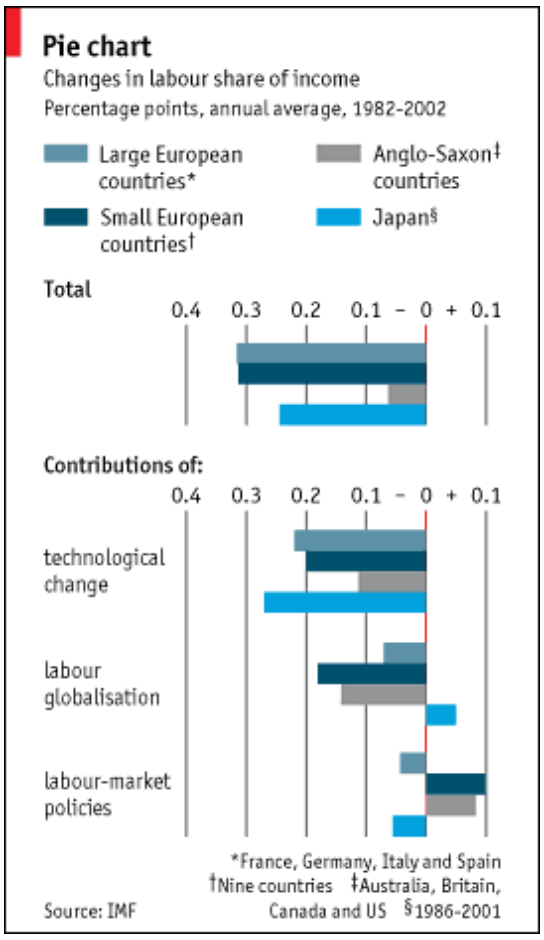
The effects of labour globalisation were most evident in Anglo-Saxon and small European countries. However, it has touched

different places in different ways. In Europe the effects of offshoring and immigration have been more marked than in the Anglo-Saxon world; in Japan they have scarcely registered. The labour-intensive goods that rich countries import have fallen in price, pressing down on the workers' share. But this has been broadly offset by price falls in the capital-intensive goods they export. In Japan these prices fell by enough to yield an overall net gain in the labour share.

Segments and wedges

In Anglo-Saxon and smaller European countries, labour-market policies have partially offset the depressing effects of technology and globalisation on labour's share, mainly by shaving the tax wedge between what workers take home and what they cost to employ. In large European countries, increases in the ratio of unemployment benefits to wages have hurt labour's prospects, probably against policymakers' intentions.

Not all workers are equal. According to the IMF, globalisation has weighed more heavily on skill-intensive than on unskilled industries. This may be because of offshoring, which has probably intruded on the first lot of industries more than the second. But other factors have offset globalisation's effects. Indeed, the labour share in skilled industries has gone up overall, because of a shift of jobs from unskilled to skilled sectors.



Although globalisation has reduced labour's share of the pie, it has made the whole pie bigger, raising output and productivity and lowering the prices of traded goods and services. So are workers getting smaller shares but larger slices? Yes, concludes the fund: trade has helped, largely by making imports cheaper. Across the 18 countries studied, changes in trade prices boosted average real pay by 0.24% a year.

Labour is therefore getting some of the extra growth due to globalisation. However, that is unlikely to silence the grumbles. Many people believe that most workers have not gained much from globalisation at all. The perception remains, especially in the United States, that people who already have plenty have enjoyed the bulk of the extra prosperity. To reach a judgment on that, you need to dissect neither the labour share nor average pay but the median wage—which the IMF's study does not do. Stand by for further argument.

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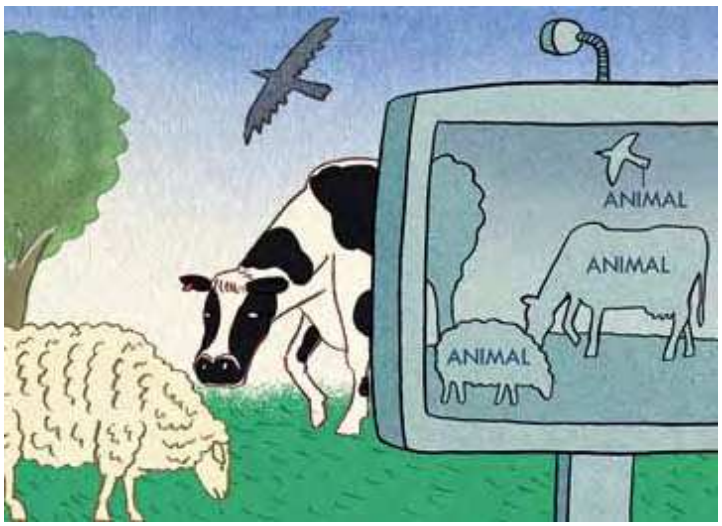
Computer vision

Easy on the eyes

Apr 4th 2007
From The Economist print edition

A computer can now recognise classes of things as accurately as a person can

Satoshi Kambayashi



NEVER underestimate a computer. Never overestimate one either. For many years Garry Kasparov, a world chess champion, said that a computer would never beat him (or, indeed, any other human in his position). In May 1997 he had to eat his words. Deep Blue, an invention of IBM, did just that.

This was impressive, but it demonstrated processing power rather than intelligence. Computers are generally good at solving specific problems, not specifically good at solving general ones. Deep Blue did not learn to play chess from experience. It was painstakingly programmed with thousands of “tactical weighting errors” devised by human experts. So whenever it selected a move, it used these to work through multitudes of possible options and their possible responses. No one is quite sure how Mr Kasparov's processor operates but it certainly does not do that. One theory goes that the human brain recognises strategic positions in a general way, and that this helps to reduce the problem to a manageable size.

Thomas Serre and his colleagues at the Massachusetts Institute of Technology have built a computer processing system that tries to work in this general way. Among the tasks that computers are bad at is recognising broad categories of images. Tell one to search for something specific, such as a rectangle or even a human face, and it can make a reasonable fist of the task. Ask it to find “animals” among photographs of dragonflies, trees, sharks, cars and monkeys, and it falls over. Indeed a monkey—or even a human baby—would leave it in the dust.

That, at least, was how it used to be. But as Dr Serre describes in this week's *Proceedings of the National Academy of Sciences*, his computer handles this problem rather well. In a recent test it even did a little better than humans.

Picture perfect

Given the briefest of glances at a picture, most people believe they have not had time to recognise anything in it at all. Ask them whether they saw an animal and they consider themselves to be making a futile guess. Yet those guesses are right much more often than they are wrong. That is because the brain can carry out immediate visual processing even when it does not have time for any cognitive back-chatter. A neuroscientist trying to understand how people recognise objects would thus start with this simplest of

systems.

That is the purpose of Dr Serre's computer. His project is nothing less than an attempt to reverse-engineer the relevant part of the brain. That part is the ventral visual pathway. Anatomy shows that it is organised into numerous areas. Experiments on monkeys, in which researchers have recorded what excites individual nerve cells in each of these areas, give strong hints about how it works.

The pathway is hierarchical. Signals from the retina flow to the most basic processing area first; the cells in that area fire up others in the next area; and so on. Those in the first area are fussy. They react to edges or bars in particular orientations. By combining their signals, however, cells in the second area can respond to corners or bars in any orientation. And so the system builds up. Cells in the final area can recognise general things, animals included.

Dr Serre considered his computer's processing units analogous to nerve cells, and he organised them into areas, just as they are in real brains. Then he let the machine learn in much the same way that babies do. First he mimicked early development when nerve cells are plastic. At this stage babies' brains tune their nerve cells to visual features according to how common those features are in the world around them. That is why kittens raised so that they see only vertical lines have brains that look different from those raised in an environment with purely horizontal ones. Dr Serre's processor developed sensitivities in a similar fashion when he showed it lots of photographs. That stage complete, he then told the computer when what it “saw” contained an animal, and when it did not.

The result was a model that closely imitates the ventral visual pathway. Processing units in each area are sensitive to the same set of features as nerve cells in the brain's analogous areas, and they are linked together as they are in the brain. This artificial recognition system correctly distinguishes photographs containing animals from those without creatures 82% of the time; Dr Serre's students get it right 80% of the time. Moreover, his computer and his volunteers tend to slip up on the same images—and turning photographs on their sides makes poorer animal-recognisers out of both, by roughly the same amount.

A system like this has obvious applications (it may, for instance, soon be put to use searching for child-pornography sites on the internet). But it also brings more subtle benefits. Based as it is on how brains work, it may give insights into what happens when they go wrong. Real neuroscientists rely on lesions (that is, damaged areas of a brain) to help them understand what is going on in brains by seeing what happens in response to particular sorts of damage. Dr Serre has therefore “lesioned” his computer system in similar ways. So far, this has demonstrated the importance in visual recognition of the rare connections that bypass a unit or two in the hierarchy. A computer chess-player could not have told you that.

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Anaesthesia

You won't feel a thing

Apr 4th 2007
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Modern anaesthetics seem to work by mimicking deep sleep, rather than knocking people cold

WITH drugs, be they medicinal or recreational, it is often a matter of “shoot first and ask questions later”. One example of this approach is anaesthesia. It works, but no one really knows why. A team of researchers led by Nick Franks of Imperial College, London, has, however, recently posed that question, and may have got a little closer to answering it.

Dr Franks and his colleagues set out to find exactly where the sedative effects of anaesthetics occur. That, they hope, will help to explain how such drugs work. They tested propofol, a member of a class of common modern drugs and compared it with ketamine, an older sedative now generally restricted to use in minor surgery. They found that although the two drugs both induce unconsciousness, they do so by acting on different parts of the brain. They presented their results at this week's meeting of the British Neuroscience Association, held in Harrogate.

Propofol is licensed for use in more than 50 countries. Most researchers in the field think it operates by making a neurotransmitter (a chemical messenger in the brain) called GABA work more effectively. GABA is an inhibitor. In other words, if a nerve cell is exposed to it, that cell becomes less active. Once a patient has propofol in his system, the effect of GABA is enhanced, causing a loss of short-term memory and, at sufficiently high doses, a loss of consciousness.

Ketamine, by contrast, acts on a neurotransmitter called glutamate, which is best known for its involvement in pain. Ketamine blocks the activity of glutamate by occupying the receptor molecules in the brain to which it would otherwise bind. That stops pain signals getting through. At sufficiently high doses, ketamine also causes unconsciousness.

Dr Franks and his colleagues took 166 adult male rats and divided them into two groups. The first group received propofol, the second ketamine. The researchers watched the rats to see that they passed out. Then they killed them so they could examine their brains.

They looked in particular for the presence of a protein called C-FOS. This protein is often produced when nerve cells are reacting to neurotransmitters and is thus regarded as a general marker for nerve-cell activity. They searched for it in three areas of the brain known to be associated with deep sleep.

With the rats given ketamine, the protein did not turn up in any great quantities in these areas. Studies by other researchers have suggested that ketamine works by suppressing activity in areas of the brain that are associated with emotions, which Dr Franks did not look at. In the case of the rats given propofol, however, Dr Franks and his team found C-FOS abundantly in an area called the tuberomammillary nucleus. This nucleus contains nerve cells that promote wakefulness. Only when people are in the motionless, dreamless period of deepest sleep do these cells normally rest. The researchers thus concluded that the tuberomammillary nucleus is crucial to the form of anaesthesia induced by propofol.

To test their results, they injected a similar anaesthetic directly into different parts of the brains of a handful of other rats. Only those that received the drug into the tuberomammillary nucleus passed out. They also examined the brains of mice that were genetically modified to be insensitive to propofol (no rats with this particular genetic modification were available). They found that the cells of the tuberomammillary nuclei of these mice were also insensitive, compared with those of normal mice.

Armed with the knowledge that one of the areas associated with deep sleep is also involved with the sort of anaesthesia caused by propofol, Dr Franks now hopes that it will be possible to design drugs that truly put people to sleep rather than knocking them out, in the way that ketamine does. Patients recovering from surgery may then emerge feeling pleasantly refreshed rather than having gone 12 rounds with Mike Tyson.

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Bacteria and depression

Bad is good

Apr 4th 2007
From The Economist print edition

An unexpected explanation for the rise of depression

BACTERIA cause disease. The idea that they might also prevent disease is counterintuitive. Yet that is the hypothesis Chris Lowry, of Bristol University, and his colleagues are putting forward in *Neuroscience*. They think a particular sort of bacterium might alleviate clinical depression.

The chance observation that Dr Lowry followed up to arrive at this conclusion was made by Mary O'Brien, an oncologist at the Royal Marsden Hospital in London. Dr O'Brien was trying out an experimental treatment for lung cancer that involved inoculating patients with *Mycobacterium vaccae*. This is a harmless relative of the bugs that cause tuberculosis and leprosy that had, in this case, been rendered even more harmless by killing it. When Dr O'Brien gave the inoculation, she observed not only fewer symptoms of the cancer, but also an improvement in her patients' emotional health, vitality and general cognitive function.

To find out what was going on, Dr Lowry turned to mice. His hypothesis was that the immune response to *M. vaccae* induces the brain to produce serotonin. This molecule is a neurotransmitter (a chemical messenger between nerve cells) and one symptom of depression is low levels of it.

Dr Lowry and his team injected their mice with *M. vaccae* and examined them to find out what was going on. First, they looked for a rise in the level of cytokines, which are molecules produced by the immune system that trigger responses in the brain. As expected, cytokine levels rose. They then looked directly in their animals' brains for the effect of those cytokines.

Cytokines actually act on sensory nerves that run to the brain from organs such as the heart and the lungs. That action stimulates a brain structure called the dorsal raphe nucleus. It was this nucleus that Dr Lowry focused on. He found a group of cells within it that connect directly to the limbic system, the brain's emotion-generating area. These cells release serotonin into the limbic system in response to sensory-nerve stimulation.

The consequence of that release is stress-free mice. Dr Lowry was able to measure their stress by dropping them into a tiny swimming pool. Previous research has shown that unstressed mice enjoy swimming, while stressed ones do not. His mice swam around enthusiastically.

This result is intriguing for two reasons. First, it offers the possibility of treating clinical depression with what is, in effect, a vaccination. Indeed, *M. vaccae* is considered a bit of a wonder-bug in this context. Besides cancer, and now depression, it is being looked at as a way of treating Crohn's disease (an inflammation of the gut) and rheumatoid arthritis.

Second, it opens a new line of inquiry into why depression is becoming more common. Two other conditions that have increased in frequency recently are asthma and allergies, both of which are caused by the immune system attacking cells of the body it is supposed to protect. One explanation for the rise of these two conditions is the hygiene hypothesis. This suggests a lack of childhood exposure to harmless bugs is leading to improperly primed immune systems, which then go on to look for trouble where none exists.

In the case of depression, a similar explanation may pertain. If an ultra-hygienic environment is not stimulating the interaction between immune system and brain, some people may react badly to the consequent lack of serotonin. No one suggests this is the whole explanation for depression, but it may turn out to be part of it.

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Bacteria and antibiotics

Weakness is strength

Apr 4th 2007
From The Economist print edition

A strange interaction between antibiotic drugs

ANTIBIOTIC drugs are a well-known test of the idea of natural selection. By killing sensitive bugs, they leave more space and nutrients for resistant ones to thrive. Genes for resistance thus spread through the population unless such drugs are used carefully and sparingly. However, as with other sorts of drug, different types of antibiotic may interact with one another in unexpected ways. And Roy Kishony and his team from Harvard University have just shown, in a paper published in this week's *Nature*, that one such interaction has the paradoxical effect of giving the Darwinian advantage to drug-sensitive bacteria instead of drug-resistant ones.

Dr Kishony's team studied two strains of *E. coli*, a common gut-bacterium that nevertheless sometimes causes food poisoning and urinary-tract infections. One of these strains was sensitive to doxycycline, a common antibiotic; the other was doxycycline-resistant. When the two were grown in cultures containing doxycycline the resistant strain, as expected, did better. However, when the researchers grew each strain in cultures containing both doxycycline and a second antibiotic, ciprofloxacin, they found the opposite effect. This time it was the doxycycline-sensitive strain that did better even though, in principle, it was not resistant to either drug.

The real test came when Dr Kishony pitched the two strains against each other, *mano a mano*, as it were. To see what was going on, he labelled the doxycycline-resistant strain with a yellow protein and the sensitive strain with a blue protein.

When only doxycycline was added to the mixture, the yellow team prevailed. But when both drugs were present, blue bacteria swept the field—or, rather, the Petri dish. In a straight fight, therefore, it was the drug-sensitive strain that had the selective advantage when faced with a two-pronged attack.

Exactly how the two drugs interact to produce this result is not yet clear. They work in different ways. Doxycycline gums up the assembly line on which proteins are made, whereas ciprofloxacin stops the DNA message about how to make each protein being read in the first place, so there is plenty of scope for interference between the two.

Whether Dr Kishony's discovery has any clinical implications remains to be seen. As he observes, the experiments were performed on bacteria that live in the laboratory under highly controlled conditions. Nevertheless, this study opens a novel way of looking at the problem of resistance. Using one drug to neutralise resistance to another looks worthy of further research.

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Correction: Antarctic science

Apr 4th 2007
From The Economist print edition

The lead picture in last week's briefing on Antarctic science was the old American station at the South Pole, now used as a storehouse, not the new one as stated in the text. The picture has been replaced in the online version of this article. Sorry.

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France's next president

The fire in their veins

Apr 4th 2007 | PARIS
From The Economist print edition

The family backgrounds that made Nicolas Sarkozy, François Bayrou and Ségolène Royal each want to be France's president

Un Pouvoir Nommé Désir
By Catherine Nay

Grasset; 476 pages; €20.90

Buy it at Amazon.fr

Ensemble
By Nicolas Sarkozy

XO Editions; 160 pages; €14.90

Buy it at Amazon.fr

Ségolène Royal, l'Insoumise
By Marie Eve Malouines and Carl Meeus

Fayard; 346 pages; €20

Buy it at Amazon.fr

Qui Connaît Madame

AP/AP/EPA

Get article background

THE French are prolific publishers of political books in any season. Now, with just two weeks to go before the first round of their presidential election, the bookstore shelves and bestseller lists are more laden than ever with texts by or about the contenders. What do they say about the characters behind the candidates hoping to become the next president of France?

Catherine Nay, a French writer and broadcaster, has written one of the better researched volumes about the centre-right candidate and front-runner in the polls, Nicolas Sarkozy. With the help of interviews with members of his extended family, she has pieced together a fascinating picture of his early years, revealing a boy pained by a wayward, absent father, and marked out socially as the child of a divorced mother in the bourgeois Paris suburb of Neuilly in pre-1968 France. Childhood humiliation seems to have forged his steely character. Mr Sarkozy's father, an aristocratic Hungarian who fled communism to settle in France in the late 1940s, once told him: “With your surname, and the marks you get at school, you will never succeed in France.”

Growing up in a fatherless household—Sarkozy senior went on to marry three more times—the young Nicolas turned to two crucial figures. One was his mother, known as Dadu, a lawyer who went back to work to support the family after her divorce. The other was Benedict Mallah, his austere but devoted maternal grandfather, a Thessalonican-Jewish doctor in whose house Nicolas, his mother and two brothers lived. Together, they provided stability and inspiration for the values behind Mr Sarkozy's politics: work, family, responsibility, authority, merit. In “Ensemble”, a book he published this week, Mr Sarkozy acknowledges a political debt to his grandfather, who fought in the trenches for his adopted country and on Armistice Day “hoisted me onto his shoulders to see General de Gaulle go by”.

The Sarkozy family was far from rich. Mr Sarkozy had to work for two years in an ice-cream parlour to finance his law degree, and as a flower-delivery boy in order to help the family make ends meet. Ms Nay does not labour the point, but she clearly regards paternal neglect—both moral and financial—as a force behind Mr Sarkozy's ambition, which secured him the mayorship of Neuilly at the age of 28, and now the Gaullist presidential nomination. The lesson that he drew from his own childhood, she writes, was: “Whoever wants to succeed can rely only on themselves.”

Curiously, Ségolène Royal, France's Socialist presidential candidate, was also touched in childhood by paternal abandonment—and has also gone on, in unorthodox fashion for a socialist, to build her political programme on conservative values, such as family, responsibility and authority. Unlike Mr Sarkozy, she did grow up with her father present, in a family of eight children in the Vosges in eastern France. Yet the authoritarianism of her father, an army colonel, as well as his belief that daughters were not fit for higher education, stiffened her political resolve. A feminist before she was a socialist, Ms Royal took her father to court when she was just 19 years old, to force him to pay maintenance to her mother, who by that

Royal?
By Eric Besson

Grasset; 165 pages; €12.90

Buy it at
Amazon.fr

Maintenant
By Ségolène Royal
Edited by Marie-Françoise Colombani

Hachette Littératures; 335 pages; €18

Buy it at
Amazon.fr

François Bayrou: Quand la Providence Veut
By Antoine Michelland and Philippe Séguy

Rocher; 319 pages; €18

Buy it at
Amazon.fr

time had left her husband.

According to Marie Eve Malouines and Carl Meeus, two journalists, it was this fighting spirit—the “young girl who rebelled against her father's authority” and was “revolted by the injustice done to her mother”—that enabled Ms Royal to secure her party's nomination late last year. Then the outsider, she had to combat the scepticism of the Socialist heavyweights, just as she had had to fight paternal disregard three decades earlier. It is an intriguing thesis, though unfortunately one that the authors fail to elaborate on in a book rather longer on questions than it is on answers.

One man who thinks he can explain Ms Royal is Eric Besson, her former chief economic adviser, who quit during this campaign. In a book shot through with personal pique, he portrays the Socialist candidate as an incurable individualist, incapable of consulting beyond her clique, forging policy on the hoof and playing the victim in order to disarm her (usually male) challengers. “I think, in all conscience, that Ségolène Royal should not become president of the republic,” he writes. “I do not wish it for my country. I fear it for my children.”

It is difficult to separate sour feeling from sober analysis in Mr Besson's partial text. At the end, the reader is left with a strong sense of Ms Royal as a difficult character, but little idea about what fires her. Then again, a similar impression lingers at the end of “Maintenant”, Ms Royal's own new title, bizarrely laid out as answers to questions on subjects arranged in alphabetical order. It reveals, disjointedly, that she thinks her biggest character flaw is having “too much self-esteem”, that she is in favour, in time, of Turkish membership in the European Union, and she thinks that the 35-hour working week rules have made working conditions in France worse.

Back to the farm

If Mr Sarkozy and Ms Royal both seem to owe their political ambition to difficult childhood circumstances, that of François Bayrou, the centrist presidential candidate, has less obvious origins. The son of farming people from the Béarn region of south-west France, Mr Bayrou grew up, according to Antoine Michelland and Philippe Séguy, in an idyllic, rural, quietly Catholic farmhouse. While his friends lived in houses with the latest Formica kitchen units and listened to the Beatles, Mr Bayrou's childhood was all rustic wood, tractors and stone fireplaces. It is an image that he still cultivates today, styling himself as the embodiment of *la France profonde* and the authentic antidote to his two Paris-based rivals.

Whether these background stories will count in this election is hard to say. Under the Fifth Republic, the presidency has been a remote, quasi-monarchical institution. Presidential candidates have not dwelt much on their own narratives, shying away from over-personalisation. But voters, at some level, still seem to want their president to embody France. With three such varied front-running candidates, the question is: which France?

Un Pouvoir Nommé Désir.
By Catherine Nay.
Grasset; 476 pages; €20.90

Ensemble.
By Nicolas Sarkozy.
XO Editions; 160 pages; €14.90

Ségolène Royal, l'Insoumise.
By Marie Eve Malouines and Carl Meeus.
Fayard; 346 pages; €20

Qui Connaît Madame Royale?
By Eric Besson.
Grasset; 165 pages; €12.90

Maintenant.
By Ségolène Royal in conversation with Marie-Françoise Colombani.
Hachette Littératures; 335 pages; €18

François Bayrou: Quand la Providence Veut.
By Antoine Michelland and Philippe Séguy.

Rocher; 319 pages; €18

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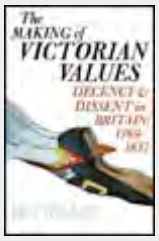
English history

An interim time of great confusion

Apr 4th 2007
From The Economist print edition

BEN WILSON uses the period between 1789 and 1837 to explore how the libertine 18th century became transformed into the moralism of the Victorian age. English society did not undergo a Damascene conversion. Instead, it survived a period of intense confusion, debate, self-analysis and self-deception. Mr Wilson's aim, in which he succeeds triumphantly, is to bring to life the cultural texture of the time.

The Making of Victorian Values: Decency and Dissent in Britain, 1789-1837
By Ben Wilson



Penguin; 464 pages; $27.95
Published in Britain by Faber and Faber as "Decency & Disorder"; £20

Buy it at
Amazon.com
Amazon.co.uk

The rise of moralism was a bugbear to Lord Byron, born in 1788. The poet's unfortunate wife tried but failed to reform him, though her religious ideology ended up triumphant. “Cant is so much stronger than the Cunt nowadays,” he wrote, employing an unvarnished vocabulary which would soon become taboo even in a private letter. By “cant” he and his contemporaries meant hypocritical moralistic platitudes, or, as Mr Wilson puts it, “the pretext of religion to justify social control”.

Between the poles of amoral cynicism and rank religious hypocrisy was a messy space in which people tried to find ways of dealing with their insecurity and self-doubt. One of the bestsellers of the period, published in 1806, had the revealing title “The Miseries of Human Life”. People who thought that they valued integrity were plagued with lack of confidence. They became aware that the late 18th-century cult of sensibility, which had championed untrammelled emotion as the fount of altruism, could easily spill over into self-indulgent histrionics; the sincerity they valued as the highest good could drift into self-deception and selfishness.

Those attempting to improve the human lot worried that they themselves could be in the grip of internal cant. Progressive evangelicals, such as Elizabeth Fry, a prison reformer, questioned their own charitable motives with painful introspection. It is not surprising that some philosophers, such as Thomas Malthus and Jeremy Bentham, tried to remove emotion from their visions of social reform.

Others, in this age of instability, fell prey to con men, such as Samuel Solomon, who made a fortune selling his cure-all secret recipe “Balm of Gilead”. This magic potion (brandy with a few added ingredients) promised to relieve all symptoms of what was really cultural malaise. Instead, it turned its devotees into addicts.

Some commentators diagnosed what would today be called “affluenza”—an excess of prosperity which made people hunger for things they did not need. Mr Wilson points, for example, to the marketing of a “hunting razor” which allowed the busy gentleman to shave at full gallop. Then, as now, people worried about an epidemic of childhood obesity, while grand ladies starved themselves to look better in the unforgivingly revealing fashions of the day.

Rather than keeping their distance, the two worlds of moral idealism and decadent debauchery were constantly in dialogue, often within the same person. It seems almost bizarre to imagine William Wilberforce, the high-minded anti-slavery campaigner, indulging in friendly social chit-chat with the Prince Regent (a typical conversation with the prince, as recorded by an amazed Persian diplomat, encompassed such topics as the large size of his brother's penis, revealed as he relieved himself out of a carriage window).

In his treatment of the moral confusion of his subjects, Mr Wilson is compassionate towards human weakness, and alive to the flesh-and-blood individuality of his sources. Though he points out the hypocrisy and contradictions inherent in many social-reform projects—of which the Society for the Suppression of Vice was perhaps the most revolting—he does not idealise the world that they were trying

to improve: a world which employed 12-year-old prostitutes and enjoyed the licensed cruelty of bare-knuckle boxing.

The material discussed in this account is so rich and varied that it might have overwhelmed a lesser writer. Mr Wilson's elegant prose keeps it beautifully under control. He is only in his twenties, and this is already his second book. It is an impressive achievement.

The Making of Victorian Values: Decency and Dissent in Britain, 1789-1837.
By Ben Wilson.
Penguin; 464 pages; $27.95.
Published in Britain as "Decency and Disorder"; Faber and Faber; £20

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Russia

A slice of death

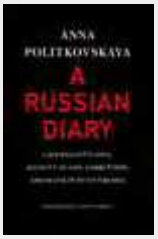
Apr 4th 2007
From The Economist print edition

BEFORE she was murdered, Anna Politkovskaya was one of President Vladimir Putin's most outspoken critics. On October 7th 2006, when she was shot by a contract killer in the stairwell of her home, she became the best-known victim of the Russia he has created.

Not that there is any proof that the Russian authorities ordered her shooting: indeed the Kremlin line is that it was a cynical move by Mr Putin's enemies abroad. Others believe that the murder was ordered by one of the factions in Chechnya, whose brutality and larceny she passionately chronicled.

Ms Politkovskaya's diaries are both gripping and flawed. Her great gift is for telling with unsentimental sympathy the stories of people caught up in the Russian state's mincing machines: the relatives of those who disappear to torture and death in Chechnya; the Russian veterans of the conflict, neglected and unemployably traumatised; the drunken, decaying squalor of life in the Russian boondocks.

A Russian Diary
By Anna Politkovskaya



Harvill Secker; 272 pages; £17.99. To be published in America by Random House next month

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She also captures the political atmosphere of modern Russia, including the obfuscation and pomposity, the shameless mendacity, the hopeless squabbles and wishful thinking of the opposition. Her two central characters are Mr Putin himself, whose cloyingly insincere public utterances and occasional mistakes she describes with savage glee; and Ramzan Kadyrov, a thuggish and volatile pro-Kremlin Chechen warlord (now the republic's president), whom she describes repeatedly—and bravely—as a “lunatic”.

But her judgments are so sweeping and harsh that the fair-minded reader may flinch a bit. Is it really fair to compare Mr Putin with Stalin? The war in Chechnya does have awful similarities to Stalin's campaigns against Baltic and Ukrainian partisans after 1945, but has not so far been accompanied by wholesale deportations to Siberia. Ms Politkovskaya's biggest struggle was with indifference, not censorship. She was kept off the air, her articles published in a small-circulation weekly. But in the truly totalitarian state in which she grew up, such articles would not have appeared at all, and circulating even blurred carbon copies would have risked the gulag.

Yet overstatement, like inconsistency, is a diarist's privilege. Read with the volume turned down a notch, the book is a valuable, if unhappy, account of the last years of her life. It is worth reading just for her report on the terrorist seizure of a school in Beslan, the extraordinarily bungled and bloody military operation that ended it and the cynical official cover-up that continues to this day.

Anyone hoping to learn about Ms Politkovskaya as a person, though, will be disappointed. Her life outside journalism and politics does not feature, even as a backdrop. That is a welcome contrast to the self-important style of many lesser journalists' books about great events. If Ms Politkovskaya experienced discomfort, amusement or boredom, she did not bother to write it down: it was her subjects' story that mattered, not hers.

A good biographer may one day plug that gap. But nothing will fill the void left by her murder.

A Russian Diary.
By Anna Politkovskaya.
Harvill Secker; 272 pages; £17.99. To be published in America by Random House next month

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Memoirs of adoption

The bittersweet taste of discovery

Apr 4th 2007
From The Economist print edition

IN HER memoir, A.M. Homes observes that genealogical research has become a top-ranking American hobby—though “it's more like a sport, collecting ancestors like baseball cards.” An idle pastime for some, climbing one's family tree can seem a primal necessity for the adopted.

The product of a 1950s love affair between a naive girl and her older, married employer, the author had managed contentedly with warm, inclusive adoptive parents into her thirties. Then, out of the blue, her lonely birth-mother, Ellen, contacts the daughter given up at birth. Leery of this unstable, clingy woman, Ms Homes agrees to speak only on the telephone. Ellen tracks her down anyway. At the end of their awkward first meeting, Ellen asks if Ms Homes will ever forgive her for having given her away. “‘I forgive you. You absolutely did the right thing,' I say, never having meant it more.”

Abruptly, “My mother is dead. My mother called to tell me my mother is dead? This is the dissonance, the split, the impossibility of living two lives at once.” Seemingly a burden, Ellen's emergence was in fact an all too brief opportunity. Ms Homes plunders Ellen's apartment for a cache of clues to her birth-mother's identity, only to shy away from the boxes once she is home: “She put me up for adoption—I'm sending her to mini-storage.”

Meanwhile the greasy birth-father, Norman, proves as great a disappointment to his illegitimate daughter as he did to his pregnant mistress. Insisting on a paternity test—supposedly as a prelude to welcoming the narrator into his family—Norman denies her a copy of its positive results. His subsequent refusal to deal with Ms Homes other than through his lawyer fires her determination to trace each and every twig of her newly discovered family tree.

Thus the author spends much time and money “to find out what I already know—I am related to everyone”. Along the way she tells a poignant, bittersweet story. For Ms Homes, our twining DNA ties us to past and future. The mesmerising specificity of faded photographs and fly-specked wedding licences makes it all seem less arbitrary.

The Mistress's Daughter: A Memoir.
By A.M. Homes.
Viking; 238 pages; $24.95. To be published in Britain by Granta in June

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Surgeons at work

Are they human?

Apr 4th 2007
From The Economist print edition

IT IS difficult to go through life completely avoiding a surgeon, however much one might want to. Some people dislike surgeons because they once met one who did not seem quite human. Accountants might be boring and lawyers might be greedy, but surgeons are generally reckoned to be unfeeling, turning anxious patients into medical specimens.

These two books are remarkably honest and human accounts, both describing professional moments of fear, guilt, embarrassment and humour. The two authors, both Harvard-educated surgeons, admit to cases of personal failure and call on their fellow medics to reflect continuously on how they can improve the way their profession is practised.

Pauline Chen's project is a discussion of appropriate end-of-life care. She delves into the question of why surgeons can seem unfeeling and slowly teases apart the answer that it is brought about by a doctor's training. In her view, medical students should learn to trivialise death enough to cope but humanise it enough to help, and their formal education caters disproportionately to the former. Dissecting a human body knowing only its age and sex is a “rite of passage” that gives many medical students disturbing “cadaver dreams”. A few months later it elicits black humour. Technicians expose the cadavers' faces a fortnight before the end of the course, by which time dissecting the delicate facial anatomy has come to seem “soothing”.

Atul Gawande is more interested in behavioural tendencies than emotional ones. His book is wider in scope and rich in fascinating detail. A staff writer for the *New Yorker* as well as a 2006 MacArthur “genius” grant recipient for his research, Dr Gawande reports on the experience of other doctors as well as recounting his own. He has talked to medical men who have participated in executions and to others who have become prosecuting lawyers in malpractice suits. He lays out the process by which he calculated what figure to request as his first full salary, and he talks wryly about inelegant examinations where women with abdominal complaints have turned up at his office wearing awkward dresses and tights.

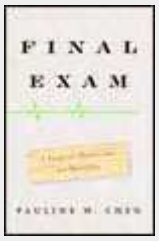
Dr Gawande encourages his colleagues to observe their performance in a quantitative way. A simple example of this is that medics, including himself, wash their hands about a third as often as they should. By contrast, doctors at the World Health Organisation monitor polio with such diligence that a single case in southern India leads to the rapid mobilisation of a massive vaccination programme.

Army surgeons in Afghanistan and Iraq are, he believes, masters at working out ways to improve their performance. For example, their exhaustive spreadsheets reveal that when surgeons are faced with wounded men off the battlefield, the death count is reduced if, instead of continuing the necessary emergency treatment, they ship the anaesthetised soldiers off to other, perhaps better-equipped facilities, their wounds often still open and packed with gauze.

Both authors recall professionals they respect telling them that the best doctors are those who can put themselves in their patients' shoes. This allows them to approach openly the question of when to give up on aggressive treatment and let the patient's failing health progress peacefully. Deaths can often be made easier than they would have been if too much medical ambition had been involved.

Where these books disappoint, if only slightly, is in the very occasional use of a specialised term when an

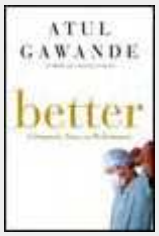
Final Exam: A Surgeon's Reflections on Mortality
By Pauline W. Chen



Knopf; 288 pages; $23.95

Buy it at
Amazon.com
Amazon.co.uk

Better: A Surgeon's Notes on Performance
By Atul Gawande



Metropolitan Books; 273 pages; $24. To be published in Britain by Profile Books next month

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everyday phrase would have done. A pity, but a small one. In general, both books succeed in being as engaging to the layman as to the practising or studying doctor. They should be required reading for the latter.

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By Pauline W. Chen.
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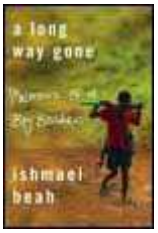
Amazon worldwide bestsellers

The Child is father of the Man

Apr 4th 2007
From The Economist print edition

A terrible, or at least a stirring, childhood is the best way to sell an autobiography



TOP of the list is the worst childhood of all: at 13, Ishmael Beah was recruited by Sierra Leone's government army where he saw, and did, awful things. Ayaan Hirsi Ali, born into a tribe of Somali desert nomads, slipped away from all that to become a Dutch parliamentarian, facing death threats for criticising the way Islamists treat women. Jeannette Walls also had rather a bad time, but in America, with eccentric parents.

Two famous black Americans examine their lives. Sidney Poitier, who looks back a mighty long way, is still read by his fans. Barack Obama, who must now be looking forward not back, describes his youthful search for racial identity.

Then there are the infamous. This batch includes Jeff Henderson, a former cocaine dealer who gave it all up to become a super-chef, and Neil Strauss, who provides a do-it-yourself guide for unattractive men on how to pick up women. And, to end it all, there is John Grogan's life with the world's worst dog.

1. A Long Way Gone: Memoirs of a Boy Soldier
by Ishmael Beah

Click to buy from Amazon.com or Amazon.co.uk

2. Infidel
by Ayaan Hirsi Ali

Click to buy from Amazon.com or Amazon.co.uk

3. The Measure of a Man: A Spiritual Autobiography
by Sidney Poitier

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4. In an Instant: A Family's Journey of Love and Healing
by Lee & Bob Woodruff

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5. The Glass Castle: A Memoir
by Jeannette Walls

Click to buy from Amazon.com or Amazon.co.uk

6. Eat, Pray, Love: One Woman's Search for Everything Across Italy, India and Indonesia
by Elizabeth Gilbert

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7. Cooked: From the Streets to the Stove, from Cocaine to Foie Gras
by Jeff Henderson

Click to buy from Amazon.com or Amazon.co.uk

8. The Game: Penetrating the Secret Society of Pickup Artists
by Neil Strauss

Click to buy from Amazon.com or Amazon.co.uk

9. Dreams From My Father: A Story of Race and Inheritance
by Barack Obama

Click to buy from Amazon.com or Amazon.co.uk

10. Marley & Me: Life and Love with the World's Worst Dog
by John Grogan

Click to buy from Amazon.com or Amazon.co.uk

Source: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr & Amazon.jp from March 1st-31st 2007

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Paul Lauterbur

Apr 4th 2007
From The Economist print edition

Paul Lauterbur, father of MRI, died on March 27th, aged 77

AP

THE whole history of modern science, Paul Lauterbur once joked, might be written on the basis of papers turned down by academic journals. His own experience was a case in point. In 1971 he sent a paper to *Nature*; it was rejected. The *Nature* folk were especially unimpressed by the fuzziness of the pictures that accompanied the piece. Never mind that they showed the difference between heavy water (with deuterium atoms) and ordinary water (with hydrogen atoms) in a way that no image had done before. Never mind that nuclear magnetic resonance (NMR) had been used for the first time to make those images, and could henceforth be used, with just a little development, to make non-invasive pictures of brains and spinal cords. Never mind that this technique, in 2003, was to win Mr Lauterbur a joint share in the Nobel prize for medicine. It did not yet look professional enough.

Nor did some other aspects of Mr Lauterbur's work. His core discovery, of how to get spatial information about atoms in a magnetic field, was scribbled on a paper napkin over dinner in a Big Boy restaurant in Pittsburgh, between two bites of a hamburger. His early exploration of this idea, building up two-dimensional images of the soft interiors of organisms by spectroscopy, was performed on green peppers or on clams which his small daughter collected on the beach. His speciality for a long time, before he had developed the technology he needed, was fuzziness—or rather, that interesting gradation of shading, pinpointed by hydrogen atoms, that showed where the water content of the cells was changing, and tissues were becoming diseased.

There was always something serendipitous, even wild, about Paul Lauterbur's approach to science. As a boy in the Ohio countryside he trespassed widely in search of terrapins, fish and birds; as a teenager he built his own lab in the basement of his house, entranced by the strange vials in his chemistry set and by the stink of burning sulphur. His greatest joy, he reported, was to be left alone to explore the world or to experiment. His chemistry teacher at school was understanding, allowing him to lark around with apparatus, just within the limit of danger and expulsion, at the back of the class. His army superiors were kind when he was drafted in the 1950s, letting him spend his time setting up and running an early NMR machine; by the end of his service, when his colleagues had nothing but a cropped head to show for it, he had produced four scientific papers. Academic authorities, first at the State University of New York at Stony Brook and then at the University of Illinois at Urbana-Champaign, were aware of his low boredom threshold and let him rove between his native chemistry, physics and medicine, knowing that if this professor was left to himself he might well produce something extraordinary.

Mapping pathologies

What Mr Lauterbur did was not, in its essence, brand new. The fact that the nuclei of atoms were magnetic, acting like tiny compass needles, had been discovered in the 1940s. When those nuclei were aligned in a strong magnetic field and bombarded with radio waves, they would send back radio signals of the internal structure of substances; this had been observed in 1952, and NMR machines had been built to exploit it. But Mr Lauterbur was the first to introduce gradients, or variations, into the magnetic field, allowing him clearly to track where atoms were and to take “slices” of what he was observing in two dimensions. He began with rubber and silica, then progressed to bivalves and mice. By taking many slices, he could then build a three-dimensional image of organs and other soft tissue that could not be seen by X-rays.

Mr Lauterbur had a grand name for his discovery: “zeugmatography”, from the Greek *zeugma*, or yoke, since he had linked together both chemical and spatial information. The name did not catch on and nor, for some time, did the NMR machine. The first company that produced them, of which Mr Lauterbur briefly became president in 1971, almost went bust. Radiography departments in hospitals clung rigidly to X-rays, dangerous though they were, for making diagnoses. “Nuclear magnetic resonance” proved a terrifying concept to patients, who thought they were about to undergo a micro-version of Hiroshima. But Mr Lauterbur, undaunted, continued to work to improve the technique and went round the world promoting it. By the time he died, more than 22,000 magnetic resonance imaging (MRI) machines were in use, and more than 60m scans were being carried out each year.

What the machines see now is almost incredible. A tiny ripple of water in the brain, tracked by hydrogen atoms, that shows the passage of a stroke; a patch of inflammation in the spinal cord, indicating multiple sclerosis; the narrowing of a blood vessel, and constriction of the flow, that presage heart disease. Mr Lauterbur believed MRI could get better and better, until the living body could actually be watched at work. He believed, too, that it might begin to throw up clues about the origins of life; and that in time that fascinating fuzziness, too, would become as clear as day.

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Overview

Apr 4th 2007
From The Economist print edition

Manufacturers in Japan are slightly less upbeat than they were three months ago, according to the central bank's **Tankan survey**. The percentage balance of large firms reporting “favourable” over “unfavourable” business conditions slipped to 23 in March from December's two-year high of 25.

Headline inflation in **Japan** turned negative for the first time in ten months. Consumer prices fell by 0.2% in the year to February. Excluding fresh foods, prices were down by 0.1%. Industrial production fell by 0.2% in February. The jobless rate stayed at 4.0%.

The unemployment rate in the **euro area** fell to 7.3% in February from 7.4% in January. Consumer prices rose by 1.9% in the year to March, according to a preliminary estimate, after a 1.8% rise in the year to February.

America's manufacturing sector grew more slowly in March. The Institute for Supply Management's index of manufacturing fell to 50.9 from 52.3 in February.

India's central bank raised its benchmark interest rate from 7.50% to 7.75% on March 30th, in response to higher wholesale and consumer-price inflation.

The Reserve Bank of **Australia** kept its key interest rate at 6.25% on April 4th.

In our **monthly poll** of forecasters (see article) prospects for next year's GDP growth in America, Britain and the euro area have all been marked down since March's survey.

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The Economist poll of forecasters, April averages

Apr 4th 2007
From The Economist print edition

The Economist poll of forecasters, April averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2007	2008	2007	2008	2007	2008	2007	2008
Australia	2.5/3.3	2.2/4.1	2.9 (2.8)	3.2	2.7 (2.8)	2.5 (2.6)	–5.2 (–5.1)	–5.1
Belgium	2.1/2.6	1.6/2.6	2.3 (2.1)	2.2 (2.3)	1.8	1.9	2.7 (2.1)	2.5 (2.2)
Britain	2.2/3.1	2.0/3.1	2.6 (2.7)	2.5 (2.6)	2.1 (2.2)	1.9 (2.0)	–3.0 (–2.9)	–3.1
Canada	1.7/2.8	2.4/3.0	2.4	2.7	1.7	2.1	1.0 (1.1)	1.1 (0.9)
France	1.6/2.4	1.7/2.3	2.1	2.1 (2.2)	1.4	1.8 (1.7)	–1.3 (–1.4)	–1.2 (–1.4)
Germany	1.3/2.6	1.4/2.7	2.2	2.1	1.7 (1.9)	1.5	4.7	4.7 (4.8)
Italy	1.1/2.3	1.2/2.1	1.9 (1.8)	1.6	1.8	2.0	–1.9	–1.9
Japan	1.8/2.9	1.8/2.7	2.3 (2.2)	2.3	0.1 (0.2)	0.5 (0.6)	4.1 (3.8)	4.0 (3.8)
Netherlands	2.0/3.3	1.7/2.9	2.6 (2.7)	2.4 (2.6)	1.4 (1.6)	1.8 (1.9)	8.3 (7.7)	8.2 (7.8)
Spain	2.4/3.7	2.2/3.1	3.4 (3.3)	2.8	2.5	2.9 (2.8)	–8.8 (–8.7)	–8.4 (–8.5)
Sweden	3.4/4.1	2.6/3.6	3.8 (3.5)	3.0	1.6	1.9 (1.8)	6.6	6.1
Switzerland	1.7/2.4	1.8/2.3	2.0 (2.1)	2.0	0.7 (0.9)	1.2	15.3	14.9 (15.1)
United States	2.0/2.7	2.3/3.3	2.3 (2.6)	2.7 (2.9)	2.1 (1.9)	2.3	–6.1	–6.0 (–5.9)
Euro area	2.0/2.6	1.7/2.4	2.3	2.1 (2.2)	1.8 (1.9)	1.9	–0.1 (nil)	nil

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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Output, prices and jobs

Apr 4th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+3.1 Q4	+2.5	+2.3	+2.7	+3.4 Feb	+2.4 Feb	+3.6	+2.1	4.5 Feb
Japan	+2.3 Q4	+5.5	+2.3	+2.3	+2.6 Feb	–0.2 Feb	–0.1	+0.1	4.0 Feb
China	+10.7 Q4	na	+9.8	+9.7	+12.6 Feb	+2.7 Feb	+0.9	+2.7	9.8 2006
Britain	+3.0 Q4	+2.7	+2.6	+2.5	+0.4 Jan	+2.8 Feb**	+2.0	+2.1	5.5 Jan††
Canada	+2.3 Q4	+1.4	+2.4	+2.7	–3.3 Dec	+2.0 Feb	+2.2	+1.7	6.1 Feb
Euro area	+3.3 Q4	+3.6	+2.3	+2.1	+3.7 Jan	+1.9 Mar	+2.2	+1.8	7.3 Feb
Austria	+3.3 Q4	+3.3	+2.8	+2.6	+8.5 Jan	+1.7 Feb	+1.2	+1.6	4.4 Mar
Belgium	+2.9 Q4	+2.4	+2.3	+2.2	+4.4 Jan	+1.8 Mar	+1.7	+1.8	11.5 Feb‡‡
France	+2.5 Q4	+2.9	+2.1	+2.1	–0.6 Jan	+1.0 Feb	+1.9	+1.4	8.4 Feb
Germany	+3.7 Q4	+3.5	+2.2	+2.1	+7.9 Jan	+1.9 Mar	+1.8	+1.7	9.2 Mar
Greece	+4.3 Q4	na	+3.2§	+3.1§	+3.0 Jan	+2.7 Feb	+3.2	+2.8§	8.8 Q4
Italy	+2.8 Q4	+4.7	+1.9	+1.6	+1.3 Jan	+1.7 Mar	+2.1	+1.8	6.5 Q4
Netherlands	+2.7 Q4	+2.6	+2.6	+2.4	+4.6 Jan	+1.5 Feb	+1.1	+1.4	5.0 Feb††
Spain	+4.0 Q4	+4.8	+3.4	+2.8	+3.5 Feb	+2.4 Feb	+4.0	+2.5	8.6 Feb
Czech Republic	+5.8 Q4	+5.8	+5.1	+4.6	+9.8 Jan	+1.5 Feb	+2.8	+2.4	7.7 Feb
Denmark	+2.9 Q4	+0.6	+2.3	+2.3	+1.1 Jan	+1.9 Feb	+2.1	+1.8	3.9 Feb
Hungary	+3.2 Q4	+3.2	+2.3	+3.0	+10.5 Jan	+8.8 Feb	+2.5	+6.6	7.4 Feb††
Norway	+2.7 Q4	+2.0	+2.8§	+2.5§	–2.4 Jan	+0.8 Feb	+2.6	+1.6§	2.7 Feb††
Poland	+6.4 Q4	na	+5.4	+5.0	+12.9 Feb	+1.9 Feb	+0.7	+2.0	14.9 Feb‡‡
Russia	+6.5 Q3	na	+7.0	+6.3	+8.7 Feb	+7.8 Feb	+11.1	+7.3	7.3 Feb‡‡
Sweden	+4.7 Q4	+5.0	+3.8	+3.0	+4.1 Jan	+2.0 Feb	+0.6	+1.6	4.8 Feb‡‡
Switzerland	+2.2 Q4	+1.8	+2.0	+2.0	+8.9 Q4	+0.2 Mar	+1.0	+0.7	3.2 Feb‡‡
Turkey	+5.2 Q4	na	+4.3	+5.3	+14.8 Jan	+10.9 Mar	+8.2	+8.3	9.6 Q4‡‡
Australia	+2.8 Q4	+4.2	+2.9	+3.2	+0.9 Q3	+3.3 Q4	+2.8	+2.7	4.6 Feb
Hong Kong	+7.0 Q4	+5.3	+5.4	+5.1	–1.4 Q4	+0.8 Feb	+1.2	+2.5	4.3 Feb††
India	+8.6 Q4	na	+8.0	+7.8	+10.9 Jan	+7.6 Feb	+4.9	+5.0	7.6 2006
Indonesia	+6.1 Q4	na	+6.0	+5.9	+23.1 Jan	+6.5 Mar	+15.7	+6.5	10.3 2005
Malaysia	+5.7 Q4	na	+5.5	+5.7	+2.3 Jan	+3.1 Feb	+3.2	+2.5	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.6§	+6.0§	+6.8 Sep	+7.4 Feb	+8.0	+6.8§	na
Singapore	+6.6 Q4	+7.9	+5.4	+5.4	+0.1 Feb	+0.6 Feb	+1.2	+1.4	2.6 Q4
South Korea	+4.0 Q4	+3.4	+4.4	+4.7	–0.4 Feb	+2.2 Mar	+2.0	+2.3	3.2 Feb
Taiwan	+4.0 Q4	na	+4.3	+4.6	–2.8 Feb	+0.8 Mar	+0.4	+1.4	3.9 Feb
Thailand	+4.2 Q4	+2.7	+4.3	+4.8	+7.3 Jan	+2.0 Mar	+5.7	+2.9	1.0 Dec
Argentina	+8.6 Q4	+7.4	+7.0	+4.8	+2.4 Feb	+9.6 Feb	+11.5	+9.8	8.7 Q4‡‡
Brazil	+3.8 Q4	+4.5	+3.3	+3.5	+4.5 Jan	+3.0 Feb	+5.5	+3.7	9.9 Feb‡‡
Chile	+4.3 Q4	+7.8	+5.1	+5.2	+4.6 Feb	+2.7 Feb	+4.1	+2.6	6.4 Feb††††
Colombia	+8.0 Q4	nil	+5.0	+4.5	+13.7 Jan	+5.8 Mar	+4.1	+4.2	13.8 Jan‡‡
Mexico	+4.3 Q4	+1.9	+3.5	+3.7	+1.4 Jan	+4.1 Feb	+3.7	+3.8	4.0 Feb‡‡
Venezuela	+11.8 Q4	na	+6.2	+3.9	+4.1 Dec	+18.5 Mar	+12.1	+18.3	8.9 Q4‡‡
Egypt	+7.1 Q3	na	+6.5	+5.9	+10.5 2006	+12.6 Feb	+4.0	+9.9	10.9 Q2‡‡
Israel	+3.7 Q4	+8.0	+4.6	+4.3	+6.9 Jan	–0.8 Feb	+3.1	+1.4	7.7 Q4
Saudi Arabia	+4.2 2006§	na	+3.9§	+5.0§	na	+3.0 Jan	+1.5	+2.5§	na
South Africa	+6.1 Q4	+5.6	+4.4	+4.7	+6.2 Jan	+5.7 Feb	+3.9	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+10.9 Q4	+8.2	+9.2§	+7.6§	+8.4 Feb	+4.7 Feb	+4.6	+4.3§	4.7 Feb
Finland	+5.3 Q4	+3.8	+2.7§	+2.5§	–1.3 Feb	+2.2 Feb	+0.9	+1.9§	7.0 Feb
Iceland	+2.5 Q4	+7.8	+0.4§	+2.6§	na	+5.9 Mar	+4.5	+4.9§	1.3 Feb‡‡
Ireland	+5.0 Q4	+0.1	+5.3§	+3.6§	+8.9 Jan	+4.8 Feb	+3.3	+3.4§	4.3 Feb
Latvia	+11.9 Q4	na	+9.2§	+7.5§	+0.2 Jan	+7.3 Feb	+6.1	+6.0§	6.1 Jan
Lithuania	+6.9 Q4	+7.4	+6.5§	+6.4§	na	+4.3 Feb	+3.4	+1.8§	6.2 Feb
Luxembourg	+5.4 Q3	+4.1	+4.6§	+4.1§	+2.3 Dec	+2.0 Feb	+3.0	+3.0§	4.8 Feb‡‡
New Zealand	+2.9 Q4	+5.0	+2.6§	+3.1§	–1.4 Q3	+2.6 Q4	+3.1	+3.0§	3.7 Q4
Peru	+9.2 Jan	na	+6.1	+5.5	+11.5 Jan	+0.2 Mar	+2.5	+1.4	9.5 Feb‡‡
Philippines	+6.5 Q4	+5.6	+5.6	+5.7	+2.0 Jan	+2.2 Mar	+7.6	+4.2	7.3 Q4‡‡
Portugal	+1.7 Q4	+1.9	+1.6§	+2.1§	+4.5 Feb	+2.4 Feb	+2.9	+2.2	8.2 Q4‡‡
Slovakia	+9.6 Q4	na	+7.0§	+5.4§	+17.5 Jan	+2.7 Feb	+4.4	+2.5	11.0 Jan
Slovenia	+5.5 Q4	na	+4.0§	+3.8§	+4.2 Dec	+2.3 Mar	+1.9	+2.3	8.7 Jan‡‡

*% change on previous quarter, annual rate. †The Economist poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.6% in Feb. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Apr 4th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Mar 27th	Apr 2nd*	% change on one month	% change on one year
Dollar index				
All items	192.9	191.5	+2.1	+20.8
Food	158.2	154.5	−1.6	+15.3
Industrials				
All	237.9	239.4	+5.4	+25.9
Nfa†	156.7	154.7	+1.3	+2.8
Metals	282.1	285.5	+6.7	+34.8
Sterling index				
All items	148.8	146.8	−0.6	+7.2
Euro index				
All items	133.6	132.4	+0.0	+10.8
Gold				
$ per oz	633.95	658.80	+2.6	+12.3
West Texas Intermediate				
$ per barrel	62.96	65.90	+8.5	−0.4

*Provisional †Non-food agriculturals.

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Trade, exchange rates, budget balances and interest rates

Apr 4th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Apr 3rd	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	–829.1 Jan	–856.7 Q4	–6.1	–	–	–1.6	5.23	4.67
Japan	+83.9 Jan	+173.3 Jan	+4.1	119	117	–4.7	0.58	1.65
China	+204.8 Feb	+160.8 2005	+7.6	7.73	8.02	–1.6	2.86	3.23
Britain	–154.2 Jan	–80.1 Q4	–3.0	0.51	0.57	–2.7	5.59	5.02
Canada	+47.3 Jan	+21.4 Q4	+1.0	1.16	1.17	0.8	4.16	4.14
Euro area	–7.0 Jan	–17.3 Jan	–0.1	0.75	0.82	–1.0	3.91	na
Austria	+0.4 Jan	+11.6 Q3	+1.3	0.75	0.82	–1.1	3.94	4.14
Belgium	+17.0 Jan	+7.8 Dec	+2.7	0.75	0.82	0.1	3.99	4.15
France	–36.0 Jan	–32.4 Jan	–1.3	0.75	0.82	–2.5	3.94	4.15
Germany	+209.6 Jan	+152.0 Jan	+4.7	0.75	0.82	–1.4	3.94	4.10
Greece	–44.3 Dec	–30.5 Jan	–7.8†	0.75	0.82	–2.6	3.94	4.29
Italy	–26.3 Jan	–46.9 Jan	–1.9	0.75	0.82	–2.6	3.94	4.29
Netherlands	+42.5 Jan	+59.7 Q4	+8.3	0.75	0.82	0.6	3.94	4.13
Spain	–114.6 Jan	–107.6 Dec	–8.8	0.75	0.82	1.7	3.94	4.15
Czech Republic	+2.4 Feb	–6.1 Q4	–3.3	20.9	23.3	–4.2	2.58	3.88
Denmark	+6.7 Jan	+6.3 Jan	+2.7	5.57	6.09	3.1	4.12	4.04
Hungary	–2.5 Jan	–6.5 Q4	–5.0	184	215	–7.1	7.90	6.75
Norway	+55.4 Feb	+56.1 Q4	+15.3†	6.11	6.43	18.7	4.48	4.58
Poland	–5.6 Jan	–7.7 Jan	–2.5	2.88	3.22	–2.6	4.24	5.17
Russia	+138.0 Jan	+95.6 Q4	+6.0	26.0	27.6	6.0	10.50	6.24
Sweden	+20.3 Feb	+28.4 Q4	+6.6	7.01	7.65	2.9	3.22	3.94
Switzerland	+10.3 Feb	+105.9 Q3	+15.3	1.22	1.29	1.2	2.29	2.71
Turkey	–53.0 Feb	–31.5 Jan	–7.0	1.37	1.33	–1.6	19.10	19.36
Australia	–9.9 Feb	–40.9 Q4	–5.2	1.23	1.39	1.2	6.56	5.89
Hong Kong	–16.9 Feb	+20.2 Q4	+9.4	7.82	7.76	2.0	4.15	4.05
India	–56.1 Feb	–10.0 Q4	–2.3	43.1	44.6	–4.3	7.96	8.37
Indonesia	+40.1 Feb	+9.6 Q4	+1.2	9,095	8,990	–1.1	8.92	6.31§
Malaysia	+29.3 Feb	+22.2 Q3	+12.9	3.46	3.68	–3.3	3.64	5.21§
Pakistan	–13.5 Feb	–6.5 Q4	–5.4†	60.7	60.1	–4.6	10.09	6.74§
Singapore	+34.6 Feb	+36.3 Q4	+23.5	1.52	1.61	0.3	2.90	2.84
South Korea	+17.7 Mar	+6.8 Feb	+0.3	937	963	0.4	4.94	4.90
Taiwan	+13.8 Feb	+25.2 Q4	+5.9	33.1	32.5	–2.3	1.86	2.06
Thailand	+3.4 Jan	+4.6 Jan	+1.9	35.0	38.5	–1.2	4.45	4.13
Argentina	+12.0 Feb	+8.1 Q4	+2.4	3.10	3.08	1.0	9.63	na
Brazil	+45.5 Mar	+14.1 Feb	+0.7	2.04	2.13	–2.2	12.68	6.16§
Chile	+24.4 Feb	+5.3 Q4	+0.8	537	521	4.3	5.04	5.22§
Colombia	–0.5 Jan	–2.3 Q3	–2.3	2,175	2,286	–1.5	7.44	6.08§
Mexico	–9.0 Feb	–1.5 Q4	–1.2	11.0	10.8	–0.4	7.02	7.49
Venezuela	+33.0 Q4	+27.2 Q4	+9.3	3,198	2,495	–3.8	10.10	6.55§
Egypt	–12.6 Q4	+2.7 Q4	+1.3	5.70	5.75	–8.0	8.29	5.31§
Israel	–7.7 Feb	+6.8 Q4	+3.4	4.16	4.62	–2.8	4.33	4.91
Saudi Arabia	+165.7 2006	+90.0 2005	+18.2†	3.75	3.75	13.2	5.05	na
South Africa	–9.5 Feb	–16.3 Q4	–5.9	7.19	6.03	0.5	9.25	7.75
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	–3.5 Jan	–2.4 Jan	–12.7†	11.7	12.8	1.3	3.98	na
Finland	+11.6 Jan	+12.8 Jan	+5.6†	0.75	0.82	2.3	3.90	4.09
Iceland	–2.0 Feb	–4.4 Q4	–16.2†	66.3	71.5	2.1	13.74	na
Ireland	+35.3 Jan	–7.2 Q4	–4.2†	0.75	0.82	0.8	3.94	4.07
Latvia	–5.3 Jan	–4.6 Jan	–19.5†	0.53	0.57	–1.2	7.77	na
Lithuania	–5.4 Jan	–3.5 Jan	–10.3†	2.58	2.82	–0.5	4.20	na
Luxembourg	–5.2 Jan	+4.4 Q4	na	0.75	0.82	–0.8	3.94	na
New Zealand	–3.8 Feb	+6.2 Q4	–9.1†	1.39	1.64	3.5	6.75	5.93
Peru	+8.7 Jan	+2.5 Q4	+1.0	3.18	3.35	0.1	4.50	na
Philippines	–3.7 Jan	+5.0 Dec	+3.2	48.1	51.0	–1.0	5.63	na
Portugal	–23.3 Dec	–18.1 Jan	–7.7†	0.75	0.82	–3.7	3.94	4.24
Slovakia	–2.7 Jan	–5.4 Nov	–5.5†	24.8	30.6	–3.0	3.66	4.18
Slovenia	–2.1 Jan	–1.3 Jan	–1.6†	0.75	0.82	–1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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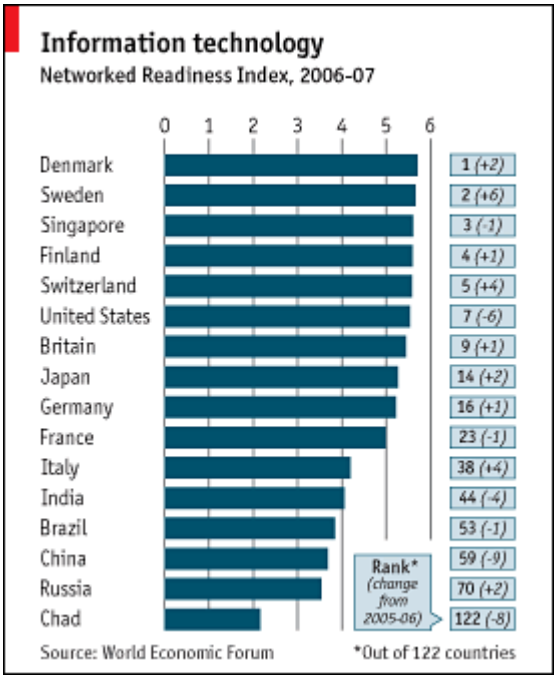
Information technology

Apr 4th 2007
From The Economist print edition



America has lost top spot in the World Economic Forum's annual “networked readiness index”, falling to seventh place in a list of 122 countries. The index ranks countries according to their potential to use internet-based technologies to boost economic growth. It comprises 67 variables, including data on the broad regulatory environment and measures of technology infrastructure and usage. Denmark tops the list, followed by Sweden. Three other Nordic countries—Finland, Iceland and Norway—are in the top ten, as is Britain. Italy is the lowest ranked of the G7 countries. China, India and Brazil are all in the top half of the list, but have slipped in the rankings since last year's survey.

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Markets

Apr 4th 2007
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Markets

	Index Apr 3rd	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,510.3	+0.9	+0.4	+0.4
United States (S&P 500)	1,437.8	+0.6	+1.4	+1.4
United States (NAScomp)	2,450.3	+0.5	+1.5	+1.5
Japan (Nikkei 225)	17,244.1	-0.7	+0.1	+0.4
Japan (Topix)	1,704.3	-1.1	+1.4	+1.7
China (SSEA)	3,459.5	+4.9	+22.9	+24.1
China (SSEB, $ terms)	181.2	+0.9	+38.0	+39.3
Britain (FTSE 100)	6,366.1	+1.2	+2.3	+3.5
Canada (S&P TSX)	13,361.2	+1.1	+3.5	+4.1
Euro area (FTSE Euro 100)	1,335.8	+2.2	+4.5	+6.0
Euro area (DJ STOXX 50)	4,246.3	+2.2	+3.1	+4.5
Austria (ATX)	4,689.9	+1.0	+5.1	+6.6
Belgium (Bel 20)	4,547.4	+1.7	+3.6	+5.1
France (CAC 40)	5,711.9	+2.2	+3.1	+4.5
Germany (DAX)*	7,045.6	+2.7	+6.8	+8.3
Greece (Athex Comp)	4,649.5	+0.1	+5.8	+7.3
Italy (S&P/MIB)	42,398.0	+2.6	+2.3	+3.8
Netherlands (AEX)	516.0	+1.5	+4.2	+5.6
Spain (Madrid SE)	1,655.4	+2.8	+6.5	+8.0
Czech Republic (PX)	1,723.8	+1.8	+8.5	+8.3
Denmark (OMXCB)	448.9	+1.7	+5.9	+7.4
Hungary (BUX)	23,655.2	+1.1	-4.8	-1.1
Norway (OSEAX)	524.4	+1.7	+4.4	+6.3
Poland (WIG)	57,604.4	+1.7	+14.3	+15.3
Russia (RTS, $ terms)	1,920.8	+0.5	-1.4	-0.1
Sweden (Aff.Gen)	396.5	+2.6	+8.5	+6.0
Switzerland (SMI)	9,054.0	+1.0	+3.1	+3.3
Turkey (ISE)	44,309.3	+2.8	+13.3	+16.9
Australia (All Ord.)	5,997.6	+0.8	+6.3	+9.5
Hong Kong (Hang Seng)	20,002.7	+1.5	+0.2	-0.3
India (BSE)	12,624.6	-3.8	-8.4	-5.9
Indonesia (JSX)	1,894.6	+4.1	+4.9	+3.8
Malaysia (KLSE)	1,256.8	+0.8	+14.6	+16.9
Pakistan (KSE)	11,432.7	+0.9	+13.9	+14.2
Singapore (STI)	3,288.4	+1.7	+10.1	+11.3
South Korea (KOSPI)	1,463.8	+0.7	+2.0	+1.3
Taiwan (TWI)	7,932.9	+1.1	+1.4	-0.2
Thailand (SET)	686.5	+1.2	+1.0	+4.4
Argentina (MERV)	2,114.6	+2.6	+1.2	nil
Brazil (BVSP)	46,288.0	+2.4	+4.1	+9.0
Chile (IGPA)	13,472.3	+1.4	+8.9	+7.8
Colombia (IGBC)	10,728.0	-2.9	-3.9	-1.0
Mexico (IPC)	29,348.1	+4.4	+11.0	+9.4
Venezuela (IBC)	47,576.8	+0.3	-8.9	-4.8
Egypt (Hermes)	63,301.4	-0.9	+3.3	+3.4
Israel (TA-100)	1,000.9	+1.1	+8.6	+10.1
Saudi Arabia (Tadawul)	7,590.6	-5.3	-5.0	-5.0
South Africa (JSE AS)	27,568.2	+2.7	+10.6	+8.5
Europe (FTSEurofirst 300)	1,536.6	+1.8	+3.6	+5.0
World, dev'd (MSCI)	1,532.4	+0.9	+3.3	+3.3
Emerging markets (MSCI)	937.1	+1.6	+2.7	+2.7
World, all (MSCI)	379.7	+1.0	+3.2	+3.2
World bonds (Citigroup)	665.8	-0.3	+1.1	+1.1
EMBI+ (JPMorgan)	418.1	+0.3	+2.7	+2.7
Hedge funds (HFRX)	1,298.4	+1.5	+1.8	+1.8
Volatility, US (VIX)	13.5	13.5	11.6	(levels)
CDSs, Eur (iTRAXX)†	20.1	+1.9	-5.8	-4.5
CDSs, N Am (CDX)†	33.6	+5.3	+14.3	+14.3
Carbon trading (EU ETS) €	1.30	+36.8	-79.4	-79.1

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank

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